

# UNITED OVERSEAS BANK (MALAYSIA) BHD

(INCORPORATED IN MALAYSIA)

CO NO : 271809K

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## Brief Profile

Incorporated in 1993, United Overseas Bank (Malaysia) Bhd [“UOBM”] is a subsidiary of United Overseas Bank Limited (“UOB”), a leading bank in Singapore with an international network comprising 385 offices in 18 countries and territories in Asia-Pacific, Western Europe and North America.

UOB has had a presence in Malaysia since 1951. Today, UOBM has the license to operate 37 branches throughout Malaysia, making it the foreign bank with the largest branch network.

UOBM offers an extensive range of commercial and personal financial services through its branches as well as through subsidiary and associate companies: commercial lending, investment banking, treasury services, trade services, home loans, credit cards, wealth management services, general insurance and life assurance.

UOBM is rated AA1 by Rating Agency of Malaysia (RAM). For further information, please visit [www.uob.com.my](http://www.uob.com.my)

## Chairman's Statement



**Wee Cho Yaw**  
*Chairman & Chief Executive Officer*

### 2004 Performance

Despite the increasingly competitive banking environment, the United Overseas Bank (Malaysia) Bhd (UOBM) Group performed satisfactorily in 2004. Profit before tax for the Group was RM526 million, representing an 8% growth over 2003's profit of RM486 million.

The good performance was attributable to higher net interest income of RM556 million (2003: RM528 million) with lower provisions of RM37 million (2003: RM78 million). This was partially offset by higher overhead expenses of RM283 million (2003: RM250 million) and lower fee income of RM258 million (2003: RM265 million). The increase in expenses was attributable to higher business volume as well as investment in technology to further enhance the Bank's delivery platform. Contribution from its insurance operations remained at 4% of the Group's earnings.

Overall, the Group's after tax return on equity for the year was at a commendable level of 21% (2003: 22%). The Bank's risk weighted capital ratio remained at 13%. Assets grew by 15% or RM3.8 billion (2003: RM25.0 billion). Loans and advances

grew by 11% or RM1.6 billion (2003: RM14.6 billion), and deposits from customers increased by 18% or RM2.4 billion (2003: RM13.5 billion). The Bank's credit card base rose by almost 150,000, an impressive gain of 70% over the previous year.

Recognising the strong growth potential in wealth management, the Bank successfully launched several innovative financial solutions in collaboration with its insurance associates. In line with its strategy to provide an integrated range of financial solutions for its customers to accumulate, preserve and distribute their wealth, the Group established a new subsidiary, UOB Trustee (Malaysia) Bhd during the year. Among its business activities is will writing services.

In June 2004, three RAM (Rating Agency Malaysia) League awards were presented to the Bank for its active involvement and contributions to the development of the corporate debt market. The Bank also received the 2003 – 2004 Golden Web Award from the International Association of Web Masters and Designers for its revamped website, [www.uob.com.my](http://www.uob.com.my). Its other websites PayOnline and UClub also received the same award.

The Bank is confident of meeting the challenges ahead. Backed by the strong resources of the UOB Group in Singapore, coupled with the unity of purpose among its workforce, the Bank is well positioned to take advantage of new opportunities that may arise in the year ahead.

#### **2005 Prospects and Plans**

The global economy is expected to experience some moderation in growth in 2005, however, the Malaysian economy should continue to be resilient. The Malaysian GDP is forecast to expand by 5.5 – 6.0% in 2005, driven mainly by domestic demand through higher private consumption and investment.

There will be continuation of liberalisation and deregulation process in the banking sector. Foreign participation by acquisition of strategic stake in the local banking group, will be seen in the context of synergies and benefits to the country. In addition, there will be new foreign players in Islamic banking. With the likelihood of further consolidation in the banking industry amidst an environment of growing excess liquidity, competition is expected to intensify. Interest margins are likely to narrow while cost of operations will continue to rise because of installation of IT infrastructure required to meet Basel II capital adequacy standards.

The Bank is confident of meeting the challenges ahead. Backed by the strong resources of the UOB Group in Singapore, coupled with the unity of purpose among its workforce, the Bank is well positioned to take advantage of new opportunities that may arise in the year ahead.

#### **Acknowledgement**

I would like to express my appreciation to all my fellow colleagues for their invaluable contributions, commitment and dedication to the Group.

I also thank my fellow Directors for their wise counsel and guidance during the year.

Wee Cho Yaw  
Chairman

## Board Of Directors

### **BOARD OF DIRECTORS**

Wee Cho Yaw  
*Chairman*

Wee Ee Cheong  
Poon Hon Thang Samuel  
Ong Sea Eng Terence  
Lee Chin Yong Francis  
YABhg Tun Dato' Seri Dr Lim Chong Eu  
YM Tunku Dato' Seri Shahabuddin  
bin Tunku Besar Burhanuddin  
Ng Kee Wei  
Lim Kean Chye

### **EXECUTIVE COMMITTEE**

Wee Cho Yaw  
*Chairman*

Wee Ee Cheong  
Poon Hon Thang Samuel  
Lee Chin Yong Francis

### **AUDIT COMMITTEE**

YABhg Tun Dato' Seri Dr Lim Chong Eu  
*Chairman*

YM Tunku Dato' Seri Shahabuddin  
bin Tunku Besar Burhanuddin  
Poon Hon Thang Samuel  
Ng Kee Wei

### **NOMINATING COMMITTEE**

YM Tunku Dato' Seri Shahabuddin  
bin Tunku Besar Burhanuddin  
*Chairman*

Wee Cho Yaw  
Lim Kean Chye  
Poon Hon Thang Samuel  
Lee Chin Yong Francis

### **REMUNERATION COMMITTEE**

Lim Kean Chye  
*Chairman*

Wee Cho Yaw  
Lee Chin Yong Francis

### **RISK MANAGEMENT COMMITTEE**

Ng Kee Wei  
*Chairman*

Poon Hon Thang Samuel  
Lee Chin Yong Francis

## Corporate Information

### SENIOR MANAGEMENT

Chan Kok Seong  
*Chief Executive Officer*

Khoo Chock Seang  
*Head of Division*  
*Personal Financial Services - Business & Sales*

Phee Chiew Tee  
*Head of Division*  
*Commercial Lending - Commercial Lending II*

Foo Kee Yee  
*Head of Division*  
*Treasury*

Foong Kien Mun  
Ong Siew Wee Arnie  
*Head of Division*  
*Commercial Lending - Listed Corporates*

Lee Jim Leng  
*Head of Division*  
*Investment Banking - Investment Banking Services*

Lee Voon Seng  
*Head of Division*  
*Human Resources*

Leong Sow Yoke  
*Head of Division*  
*Internal Audit*

Lin Kok Hoi  
*Head of Division*  
*Branch Support*

Ng Ling Tee, Steven  
*Head of Division*  
*Investment Banking - Specialised Financing*

Por Peng Seong, Alex  
*Head of Division*  
*Risk Management*

Yong Chow Kung, Lawrence  
*Head of Division*  
*International Trade Services & Remittances*

Lum Chee Onn  
*Head of Division*  
*Information Technology*

### SECRETARIES

Chun Choy Wan (Ms)  
Aw Teck Yee (Ms)

### AUDITORS

Messrs Ernst & Young  
Level 23A, Menara Milenium  
Jalan Damanlela, Pusat Bandar Damansara  
50490 Kuala Lumpur

### SHARE CAPITAL

Authorized: RM 2,000,000,000  
Paid Up : RM 470,000,000

### REGISTERED OFFICE

Level 11, Menara UOB  
Jalan Raja Laut, 50350 Kuala Lumpur

### HEAD OFFICE

Menara UOB, Jalan Raja Laut  
Peti Surat 11212  
50738 Kuala Lumpur  
Telephone: 03- 2692 7722  
Facsimile: 03- 2691 0281  
Cable: BANKUOBMKUALALUMPUR  
Telex: UOBMMP MA 31877  
Website: [www.uob.com.my](http://www.uob.com.my)  
Email: [uob121@uob.com.my](mailto:uob121@uob.com.my)

## Branch Network

### FEDERAL TERRITORY

#### Main Branch Kuala Lumpur

Level 2, Menara UOB  
Jalan Raja Laut, 50350 Kuala Lumpur  
Tel: 03-2692 4511  
Fax: 03-2691 3110  
Manager: Ms Janny Yew Beng Guay

#### Medan Pasar Branch

Bangunan UOB Medan Pasar  
10-12, Medan Pasar, 50050 Kuala Lumpur  
Tel: 03-2772 8000  
Fax: 03-2031 9387/ 03-2070 8058  
Manager: Mr Yong Yen Ee

#### Jalan Pudu Branch

408-410, Jalan Pudu, 55100 Kuala Lumpur  
Tel: 03-9222 5135/ 03-9222 9022  
Fax: 03-9221 6667  
Manager: Mr Christopher Quah Boo Lek

#### Jalan Imbi Branch

197-199 Jalan Imbi, 55100 Kuala Lumpur  
Tel: 03-2143 5722  
Fax: 03-2148 9725  
Manager: Mr Leong Yew Fook

#### Bukit Bintang Branch

136, Ground Floor, Jalan Bukit Bintang  
55100 Kuala Lumpur  
Tel: 03-2142 8828  
Fax: 03-2141 1212  
Sales & Services Manager: Mr How Boon Seong

### SELANGOR

#### Jalan Tengah Branch, Petaling Jaya

2-6, Jalan Tengah, 46200 Petaling Jaya  
Tel: 03-7955 6932/ 03-7958 2282  
Fax: 03-7955 9110  
Manager: Mr Calvin Poh Chin Tong

#### Jalan Othman Branch, Petaling Jaya

39-45, Jalan Othman, 46000 Petaling Jaya  
Tel: 03-7788 3333/ 03-7782 9696  
Fax: 03-7783 8131  
Manager: Mr Kan Wing Yin

#### Damansara Uptown Branch, Petaling Jaya

Ground Floor, Uptown 1, 1 Jalan SS21/58  
Damansara Uptown, 47400 Petaling Jaya  
Tel: 03-7726 2299  
Fax: 03-7727 5566  
Manager : Mr Tay Wei Khang

#### Klang Branch

2108 Jalan Meru, 41050 Klang  
Tel: 03-3342 0712  
Fax: 03-3342 1135  
Acting Manager: Ms Tsu Siew Keng

#### Shah Alam Branch

2A Ground Floor, Wisma SunwayMas  
Jalan Tengku Ampuan Zabedah C9/C  
Section 9, 40100 Shah Alam  
Selangor Darul Ehsan  
Tel: 03-5891 6213  
Fax: 03-5891 6052  
Manager: Mr Cheow Chee Seng

#### Puchong Branch

6 Jalan Kenari 5, Bandar Puchong Jaya  
47100 Puchong  
Tel: 03-8076 8989  
Fax: 03-8076 8181  
Manager: Mr Foo Tek Lam

### PERAK

#### Ipoh Branch

2, Jalan Dato' Seri Ahmad Said, 30450 Ipoh  
Tel: 05-254 0008/ 05-254 0200  
Fax: 05-254 9092  
Manager: Mr Yeap Boon Loon

### MELAKA

#### Plaza Mahkota Branch

1, Jalan PM5, Plaza Mahkota, 75000  
Melaka  
Tel: 06-283 8840/ 06-283 8841  
Fax: 06-283 8868  
Manager: Ms Sim Meow Hui



## Branch Network

### **Malim Branch**

1 Jalan PPM 8  
Plaza Pandan, Malim Business Park  
Jalan Balai Panjang, 75250 Malacca  
Tel: 06-336 4336  
Fax: 06-336 4337  
Manager: Mr Woon Siew Hoong

### **PAHANG**

#### **Kuantan Branch**

2, Jalan Besar, 25000 Kuantan  
Tel: 09-514 4155/ 09-516 4755  
Fax: 09-513 8266  
Manager: En Shaharom Kahar

#### **Bentong Branch**

61-62, Jalan Loke Yew, 28700 Bentong  
Tel: 09-222 1600/ 09-222 1778  
Fax: 09-222 5882  
Manager : Teo Kang Seng

#### **Raub Branch**

14 & 16 Jalan Tun Razak, 27600 Raub  
Tel: 09-355 1187/ 09-355 3766  
Fax: 09-355 5955  
Manager: Teo Kang Seng

### **NEGERI SEMBILAN**

#### **Seremban Branch**

24-26 Jalan Dato Lee Fong Yee, 70000 Seremban  
Tel: 06-762 5651/ 06-762 5652  
Fax: 06-763 5303  
Manager: Chan Chee Peng

### **NORTHERN REGION**

#### **North Regional Center**

4072, Jalan Bagan Luar, 12000 Butterworth  
Tel: 04-324 0075  
Fax: 04-323 0467  
Regional Manager: Mr Tan Kian Huat

### **PULAU PINANG**

#### **Lebuh Bishop Branch**

64E-H Lebuh Bishop, 10200 Pulau Pinang  
Tel: 04-262 2386/ 04-262 2587  
Fax: 04-261 0868  
Manager: Mr Phuah Ah Keng

#### **Jalan Kelawei Branch**

9, Jalan Kelawei, 10250 Pulau Pinang  
Tel: 04-226 1777  
Fax: 04-226 2382  
Manager: Mr Richard Liew Hiong Kong

#### **Butterworth Branch**

4072, Jalan Bagan Luar, 12000 Butterworth  
Tel: 04-333 4375/ 04-333 4376  
Fax: 04-332 4300  
Manager: Ms Julie Lee Gim See

#### **Bukit Mertajam Branch**

1 Jalan Tembikai, Taman Mutiara  
14000 Bukit Mertajam  
Tel: 04-537 9898  
Fax: 04-530 3818  
Manager: Ms Peggy Chong Yin Leng

### **KEDAH**

#### **Sungei Petani Branch**

177 & 178, Jalan Kelab Cinta Sayang  
Taman Ria Jaya, 08000 Sungei Petani  
Tel: 04-442 8828  
Fax: 04-442 9828  
Manager: Ms Koay Jin Hee

#### **Alor Setar Branch**

449 Jalan Raja, 05000 Alor Setar  
Tel: 04-732 1366  
Fax: 04-733 0621  
Manager: Mr Chang Tow Heng

## Branch Network

### KELANTAN

#### Kota Bahru Branch

3999, Jalan Tok Hakim, 15000 Kota Bahru  
Tel: 09-748 2699/ 09-748 3066  
Fax: 09-748 4307  
Manager: Mr Soo Chee Seang

### TERENGGANU

#### Kuala Terengganu Branch

51, Jalan Sultan Ismail, 20200 Kuala Terengganu  
Tel: 09-622 1644/ 09-622 7912  
Fax: 09-623 4644  
Manager: Mr Siow Chat Ming

### SOUTHERN REGION

#### South Regional Center

No 2, Jalan Wong Ah Fook, 80000 Johor Bahru  
Tel: 07-223 4241  
Regional Manager: Mr James Seow Hooi Choon

### JOHOR

#### Jalan Wong Ah Fook Branch

2, Jalan Wong Ah Fook, 80000 Johor Bahru  
Tel: 07-224 1388/ 07-224 1344  
Fax: 07-224 3706  
Manager: Mr Goh Boon Siang

#### Taman Molek Branch

26 & 28 Jalan Molek 1/13  
Taman Molek, 81100 Johor Bahru  
Tel: 07-358 2121  
Fax: 07-358 1378  
Manager: Mr Sneah Thean Keng

#### Batu Pahat Branch

Ground Floor, Wisma Sin Long  
9 Jalan Zabedah, 83000 Batu Pahat  
Tel: 07-432 8999  
Fax: 07-433 8122  
Manager: Mr Koh Boon Huat

#### Kluang Branch

14-16 Jalan Dato Kapt Ahmad, 86007 Kluang  
Tel: 07-772 1967/ 07-772 5968  
Fax: 07-772 1977  
Manager: Mr Daniel Woon Siong Huai

#### Kulai Branch

31-1 & 31-2 Jalan Raya, Kulai Besar, 81000 Kulai  
Tel: 07-663 1232/ 07-663 1342  
Fax: 07-663 5287  
Manager: Mr Raymond Chui Keng Leng

### SABAH

#### Kota Kinabalu Branch

Ground Floor, Wisma Great Eastern Life  
65 Jalan Gaya, 88000 Kota Kinabalu  
Tel: 088-319 555  
Fax: 088-314 888  
Manager: Mr Chua Chai Hua

#### Tuaran Branch

9 & 10 Jalan Datuk Dusing, 89208 Tuaran  
Tel: 088-788 567  
Fax: 088-788 979  
Manager: Mr Chua Chai Hua

#### Sandakan Branch

2nd Avenue, 90000 Sandakan  
Tel: 089-212 028/ 089-217 833  
Fax: 089-225 577  
Manager: Mr Christopher Wong Kong Yun

### SARAWAK

#### Kuching Branch

No. 1-3 Main Bazaar, 93000 Kuching  
Tel: 082-421 291  
Fax: 082-428 546  
Manager: Ms Jean Si Poi Ne

#### Miri Branch

108 & 110, Jalan Bendahara, 98000 Miri  
Tel: 085-433 322  
Fax: 085-422 221  
Manager: Mr George Lai Ted Min

## Corporate Governance

The Board is fully committed to ensuring that the principles and best practices as set out in the Malaysian Code on Corporate Governance are applied in United Overseas Bank (Malaysia) Bhd. ("UOBM").

### Board of Directors

The Board of UOBM comprises 9 distinguished members of whom five (5) members are Non-Independent Non-Executive Directors and four (4) members are Independent Non-Executive Directors. The directors have distinguished careers in the banking, finance, law, public, business and management sectors.

The Board has oversight responsibility for the business and affairs of UOBM. The Board sets the overall business direction and provides guidance on UOBM's strategic plans. It delegates the formulation of business policies and day-to-day management to various committees and the Chief Executive Officer. The Board meets regularly to review UOBM's business plans and the operating results achieved.

The Board meets at least six times a year. The attendance of every Board member at the meetings of the Board and the various Board Committees is as set out below:

	Number of meetings attended in 2004					
	Board of Directors	Executive Committee	Audit Committee	Risk Management Committee	Remuneration Committee	Nominating Committee
Wee Cho Yaw	5	35	-	-	1	1
Wee Ee Cheong	6	33	-	-	-	-
Poon Hon Thang, Samuel	4	33	2	2	-	1
Ong Sea Eng, Terence	6	-	-	-	-	-
Lee Chin Yong, Francis	6	33	-	4	1	1
YABhg Tun Dato' Seri Dr Lim Chong Eu	6	-	4	-	-	-
YM Tunku Dato' Seri Shahabuddin bin Tunku Besar Burhanuddin	5	-	3	-	-	1
Ng Kee Wei	6	-	4	4	-	-
Lim Kean Chye	6	-	-	-	1	1
Number of meetings held in 2004	6	39	4	4	1	1

### Board Committees

#### Executive Committee ("EXCO")

The Executive Committee (Exco) was established by the Board principally to assist the Board in making decisions expeditiously and to exercise certain authorities and functions delegated to it by the Board. The Exco consists of four members comprising Wee Cho Yaw, Wee Ee Cheong, Poon Hon Thang and Lee Chin Yong who are non-independent non-executive directors. The Exco schedules meetings on a weekly basis, and has been given delegated authority to exercise certain of the Board's powers.

The Chief Executive Officer is responsible for the day-to-day operations of UOBM. The Board has conferred upon the Exco and the Chief Executive Officer certain discretionary limits and authority for credit and loan approvals, treasury and investment activities, capital expenditure, budgeting and human resource management.

## Corporate Governance

### **Board Committees (continued)**

#### **Audit Committee ("AC")**

The role of the Audit Committee is to assist the Board in examining financial reports and overseeing audit matters. The Audit Committee comprises four members, all of whom, except for Poon Hon Thang are independent and non-executive directors. The chairman of the Audit Committee is YABhg Tun Dato' Seri Dr Lim Chong Eu. The other members of the Audit Committee is YM Tunku Dato' Seri Shahabuddin bin Tunku Besar Burhanuddin, Ng Kee Wei and Poon Hon Thang. The Audit Committee meets at least four times a year. Additional meetings could be called by the Chairman of the Audit Committee to discuss specific audit issues when necessary.

The Audit Committee meets with the external auditors annually to discuss the annual financial statements and their audit findings. It also meets with the external auditors whenever it deems necessary.

The minutes of the Audit Committee meetings are formally tabled to the Board for noting and for action where necessary.

In addition to the duties and responsibilities approved by the Board, the Audit Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Company's internal control and risk management systems. The Audit Committee also conducts a review of the internal audit function to ensure the adequacy of the scope, functions and resources of Internal Audit Division and that it has the necessary authority to carry out its work impartially.

#### **Risk Management Committee ("RMC")**

The Risk Management Committee (RMC) was established on 23 July 2003 by the Board to assist the Board in overseeing senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. The RMC consists of three members all of whom are non-executive directors. The Chairman of the RMC is Ng Kee Wei. The other members of the RMC are Poon Hon Thang and Lee Chin Yong. During the year, the RMC had four meetings.

The RMC meets with the chief executive officer and other senior management staff whenever it deems necessary in order to obtain their assistance in discharging their responsibilities.

The minutes of the RMC meetings are formally tabled to the Board for noting and for action where necessary.

#### **Remuneration Committee ("RC")**

The Remuneration Committee (RC) was established on 23 July 2003 by the Board to provide a formal and transparent procedure for developing remuneration policy for directors, chief executive officer and key senior management officers and to ensure that compensation is competitive and consistent with the licensed institution's culture, objectives and strategy. The RC consists of three members all of whom are non executive directors. The Chairman of the RC is Lim Kean Chye. The other members of the RC are Wee Cho Yaw and Lee Chin Yong. During the year the RC met once.

The RC may meet with the chief executive officer and other senior management staff whenever it deems necessary in order to obtain their assistance in discharging their responsibilities.

# Corporate Governance

## **Board Committees (continued)**

### **Nominating Committee ("NC")**

The Nominating Committee (NC) was established on 23 July 2003 by the Board to provide a formal and transparent procedure for the appointment of directors and chief executive officer as well as assessment of effectiveness of individual directors, board as a whole and performance of chief executive officer and key senior management officers. The NC consists of five members all of whom are non-executive directors. The Chairman of the NC is YM Tunku Dato' Seri Shahabuddin bin Tunku Besar Burhanuddin. The other members of the NC are Wee Cho Yaw, Lim Kean Chye, Poon Hon Thang and Lee Chin Yong. During the year the NC met once.

The NC may meet with the chief executive officer and other senior management staff whenever it deems necessary in order to obtain their assistance in discharging their responsibilities.

### **Financial Reporting**

In presenting the annual accounts and half yearly announcements, the Board is committed to present a balanced, clear and understandable assessment of the financial position and prospect of the Bank. The Board is assisted by the AC to oversee the Bank's financial reporting by scrutinizing the information to be disclosed to ensure accuracy, adequacy and completeness.

The Statement of Responsibility by Directors in respect of preparation of the annual audited financial statements of the Bank is set out on page 25.

### **Internal Controls**

The Bank has a well-established internal audit function. The Bank's Internal Audit, which reports to the AC, Group Internal Audit and administratively, to the Chairman and CEO, assists the Board in assessing and reporting on business risks and internal controls. Internal Audit operates within the framework defined in its Audit Charter.

There are formal procedures for Internal Audit to report its audit findings to management and to the AC. The AC approves the Internal Audit's annual audit plan during one of its meetings each year. The results of each audit are submitted to the Audit Committee and significant findings are discussed during the Audit Committee Meetings which are also attended by Group audit head and external auditors. The minutes of the Audit Committee Meetings are formally tabled to the Board of Directors for noting and action where necessary.

The scope of Internal Audit covers the audit of the Bank's main units and operations. The audits carried out on the Bank's units and operations are prioritised based on audit risk assessments. Internal Audit's responsibilities include the audits of operations, lending practices, financial controls, management directives, regulatory compliance, information technology and the risk management process of the Bank. Internal Audit focuses its efforts on performing audits in accordance with the five-year audit plan which is drawn up based on a comprehensive audit risk assessment of all significant auditable areas identified in the Bank. The structured audit risk assessment approach ensures that all risk-rated auditable areas are kept in view to ensure appropriate coverage and audit frequency. The risk-based audit plan is reviewed annually taking into account the changing business and risk environment. A monthly audit progress report is submitted to the Audit Committee for its review and monitoring. Internal Audit also works closely with external auditors to co-ordinate their audit work plans.

Internal Audit participates actively in major systems development activities and project committees to advise on risk management and internal control measures. In addition, Internal Audit audits the various application system in production, data centres, network security and the Information Technology Division.

## RISK MANAGEMENT

Risk management is an integral part of the Bank's strategic decision-making process which ensures that the Bank's corporate objectives are consistent with the appropriate risk return trade-off. The Bank's risk management philosophy is that all risks taken must be identified, measured, monitored and managed within a robust risk management framework and that return must commensurate with the risks taken.

The Board of Directors has the overall responsibility of determining the type and level of business risks that the Bank undertakes in achieving its corporate objectives. The Board has delegated to various committees the authority to formulate, review and approve policies on monitoring and managing risk exposures. The major policy decisions and proposals on risk exposures approved by these Committees are subject to review by the EXCO of the Board. The Board has appointed the Risk Management Committee to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning.

The various committees comprise top management and senior executives of the Bank who meet regularly to deliberate on matters relating to risk exposures in the areas under their respective supervision. The key risks are credit risk, balance sheet risk, liquidity risk, market risk and operational risk.

The **Credit Committee** deals with all credit risk matters, including approval of credit applications, formulation of credit policies and the review of existing credit facilities.

The **Asset Liability Committee** ('ALCO') formulates, review and approves policies and strategies regarding the balance sheet structure, liquidity needs and trading activities.

The **Risk Management Division** acts as catalyst for the development and maintenance of sound risk management policies, strategies and procedures within the Bank. The Division is independent of other business units in the Bank which are involved in risk taking activities. The Division also provides functional support to both the ALCO and Credit Committee as well as assisting the Management in managing risk inherent to the Bank.

### **Credit Risk Management**

Counterparty and credit risk is defined as the potential loss arising from any failure by customers to fulfil their obligations, as and when they fall due. All credit exposures, whether on-balance sheet or off-balance sheet, are assessed. These obligations may arise from lending, trade finance, investment, receivables under derivative and foreign exchange contracts and other credit-related activities undertaken by the Bank.

The Executive Committee ('EXCO') is established by the Board of Directors to formulate the Bank's business strategies and conduct on-going monitoring of the Bank's performance. The EXCO, under delegated authority from the Board of Directors, approves credit policies, guidelines and procedures to control and monitor such risks. It has day-to-day responsibility for identifying and managing portfolio and risk concentration issues, including industry sector exposure. The risk parameters for accepting credit risk are clearly defined and complemented by policies and processes to ensure that the Bank maintains a well diversified and high quality credit portfolio.

Credit discretionary limits are delegated to officers of individual business units, depending on their levels of experience. Approval of all credits is granted in accordance with credit policies and guidelines. Defined credit risk parameters include single borrower, obligor, security concentrations, identified high-risk areas, maximum tenor and acceptable structures and collateral types.

### **Management of Performing Loans, Non-Performing Loans and Cumulative Provisions**

The Bank classifies its loan portfolios according to the borrower's ability to repay the loan from its normal source of income. All loans and advances to customers are classified into the categories of 'Pass', 'Special Mention' or 'Non-Performing'. Non-Performing Loans are further classified as 'Substandard', 'Doubtful' or 'Loss' in accordance with BNM GP3 except the Bank has lowered the default period to 3 months instead of 6 months. Interest income on all Non-Performing Loans is suspended. Such loans will remain classified until servicing of the account is satisfactory. Where appropriate, classified loans are transferred to in-house recovery specialists to maximise recovery prospects.

## RISK MANAGEMENT

### Management of Performing Loans, Non-Performing Loans and Cumulative Provisions (continued)

Loan classification	Description
Pass	All payments are current and full repayment of interest and principal from normal sources is not in doubt.
Special mention	There is some potential weakness in the borrower's creditworthiness, but the extent of any credit deterioration does not warrant its classification as a Non-Performing Loan.
Substandard	There is weakness in the borrower's creditworthiness that jeopardises normal repayment. Default has occurred or is likely to occur or the repayment schedule has been restructured. A credit is greater than 90 days past due but less than 270 days past due.
Doubtful	A credit is greater than 270 days past due but less than 365 days past due.
Loss	A credit is greater than 365 days past due.

Specific provisions are made for each loan grade in the following manner:

Loan classification	Period of default	Provision
Substandard	3 months but less than 9 months	20% of any unsecured loan outstanding less interest-in-suspense
Doubtful	9 months but less than 12 months	50% of any unsecured loan outstanding less interest-in-suspense
Loss	12 months and above	100% of any unsecured loan outstanding less interest-in-suspense

A classified account is written off where there is no realisable tangible collateral securing the account and all feasible avenues of recovery have been exhausted.

### Bank Non-Performing Loans (NPLs) and Cumulative Provisions

The following table depicts the Bank's comparative NPLs and cumulative specific and general provisions as at 31 December 2003 and 31 December 2004:

	The Bank	
	2004 RM'000	2003 RM'000
Total non-performing loans	1,807,925	1,787,192
General provision	251,888	251,888
Total specific provision	455,821	518,128
Cumulative provisions	707,709	770,016
Ratios (%)		
NPLs/Gross total loans	10.5%	11.4%
Net NPLs/Net total loans	6.4%	6.6%
Cumulative provision/NPLs	39.1%	43.1%

## RISK MANAGEMENT

### Rescheduled and Restructured Accounts

A rescheduled account is one where repayment terms have been modified, but the principal terms and conditions of the original contract have not changed significantly. This is done to alleviate a temporary cash flow difficulty experienced by a borrower. It is expected that the problem is short-term and not likely to recur. The full amount of the debt is still repayable and no loss of principal or interest is expected.

When an account has been rescheduled three months before it meets the criteria for auto classification, the account can be graded as 'Performing'. However, if the rescheduling takes place after the account has been graded as 'Non-Performing', it remains as such and is upgraded to 'Pass' after six months and provided there are no excesses and past dues. The Bank is required to obtain prior approval from BNM for performing loans that have been rescheduled more than once in two years.

A restructured account is one where the original terms and conditions of the facilities have been modified significantly to assist the borrower to overcome financial difficulties where the longer-term prospect of the business or project is still deemed to be viable. A restructuring exercise could encompass a change in the credit facility type, or in the repayment schedule including moratorium, or extension of interest and/or principal payments and reduction of accrued interest, including forgiveness of interest and/or reduction in interest rate charged.

When an account has been restructured based on financial consideration, the account will be graded as 'Non-Performing'. It can only be upgraded to 'Pass' after six months when all payments are current in terms of the restructured terms and conditions and there is no reasonable doubt as to the ultimate collectability of principal and interest.

### Balance Sheet Risk Management

Balance sheet risk is defined as the potential change in earnings arising from the effect of movements in interest rates on the structural banking book of the Bank that is not of a trading nature.

The Asset Liability Committee ('ALCO'), under delegated authority from the Board of Directors, approves the policies and limits for balance sheet risk. This risk is monitored and managed within a framework of approved policies and limits, and is reported monthly to ALCO. The decisions of ALCO and its monthly risk management reports are reviewed by the UOB Bank Group ALCO and the Bank's Risk Management Committee.

The balance sheet risk in the banking book arises from customers' preferences and characteristics in the booking of assets and liabilities, which result in a mismatch in the interest repricing and maturity dates of these assets and liabilities. The Bank assesses the impact of changes in interest rates over time on the banking book by projecting the corresponding changes in Net Interest Income ('NII') and Economic Value of Equity ('EVE') of the Bank. The primary objective of balance sheet risk management, therefore, is to monitor and avert significant volatility in NII and EVE.

The table in note 36 to the financial statements represents the Bank's interest rate risk sensitivity based on repricing mismatches as at 31 December 2004. Interest rate risk will arise when more assets/liabilities than liabilities/assets are repriced in a given time band. A positive interest rate sensitivity gap exists where more interest sensitive assets than interest sensitive liabilities reprice during a given time period. Conversely, a negative interest rate sensitivity gap exists where more interest sensitive liabilities than interest sensitive assets reprice during a given time period. As at 31 December 2004, the Bank had an overall positive interest rate sensitivity gap of RM 3,191 million, excluding non-interest sensitive items. This being a static position, the actual effect on NII will depend on a number of factors, including variations in interest rates within the repricing periods, variations among currencies, and the extent to which repayments are made earlier or later than the contracted dates.

The risks arising from the trading book in interest rates, foreign exchange rates and equity prices are managed and controlled under the market risk framework that is discussed under the section 'Market Risk Management'.



# RISK MANAGEMENT

## Liquidity Risk Management

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet its contractual obligations when due. Liquidity risk arises in the general funding of the Bank's activities and in the management of its assets. The Bank maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new loans, participate in new investments when opportunities arise, and repay borrowings as they mature. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Liquidity risk is managed within a framework of liquidity policies, controls and limits approved by the Bank's ALCO which are in line with the policies of UOB Bank Group and which are also adequate to meet the requirements under Bank Negara Malaysia's New Liquidity Framework. These policies, controls and limits ensure that the Bank maintains well diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The management of liquidity is carried out using a prudent strategic approach to manage the Bank's funding requirements.

Liquidity contingency funding plans have been drawn up to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risks that may arise upon the occurrence of a dramatic change in market conditions. Under the plans, a team comprising senior management and representatives from all relevant units will direct the business units to take certain specified actions to create liquidity and continuous funding for the Bank's operations. Although, the Bank have self-sufficient funding capabilities, funding will also be provided by the UOB Bank Group's Head Office in Singapore to the Bank should the need arise.

## Market Risk Management

Market risk is defined as the potential loss in market value of a given portfolio that can be expected to be incurred arising from adverse movement in the level of market prices or rates, the three key components being interest rate risk, foreign currency risk and equity risk.

Interest Rate Risk refers to the volatility in net interest income as a result of changes in levels of interest rates and shifts in the composition of the assets and liabilities. Foreign currency risk is defined as the risk which arises from adverse exchange rate movements on the foreign exchange positions from time to time and Equity Risk is the risk which arises from adverse movements in the price of equities on the equity positions taken from time to time.

The Bank is exposed to market risk in its trading portfolio because the values of its trading positions are sensitive to changes in market prices and rates. Similarly, it is also exposed to market risk in its investment portfolio.

Market risk is managed using a framework of risk management processes based on market risk management policies and risk control procedures, as well as risk and loss limits. Mark-to-market technique is used to revalue marketable securities, equities and foreign currency positions. Mark-to-market of trading positions are then compared against predetermined market risk limits. The market risk limits are set after taking into account the risk appetite of the Bank, and the risk-return relationship. Risk and loss limits are proposed by every trading desk/division, reviewed by the Market Risk Management Department and approved by Group ALCO annually. Group ALCO also reviews and approves new limits or changes to existing limits as and when these are proposed. The trading positions and limits are regularly reported to the Management. The monitoring of market risk trading limits and the reporting of any limit excess are carried out independently by the Market Risk Management Department.

## RISK MANAGEMENT

### Compliance & Operational Risk Management

Operational risk is defined as the potential loss arising from a breakdown in the Bank's internal control or corporate governance that results in error, fraud, failure/delay to perform, or compromise of the Bank's interests by employees. Operational risk also includes the potential loss arising from a major failure of computer systems and from disasters. Potential loss may be in the form of financial loss or other damages, for example, loss of reputation and public confidence that will impact the Bank's credibility and ability to transact, maintain liquidity and obtain new business.

Operational risk is managed through a framework of policies, techniques and procedures as approved by our Parent Bank. There are periodic risk management reports reviewed by Risk Management Committee.

This framework of techniques and procedures encompasses the following:

- the building of Operational Risk Profiles (ORPs);
- conduct of Operational Risk Self Assessment (ORSA) based on the ORPs;
- development of an Operational Risk Action Plan (ORAP);
- the monitoring of Key Operational Risk Indicators (KORIs);
- the collection and analysis of risk events/loss data; and
- the process for monitoring and reporting operational risk issues.

The building of the ORPs involves risk identification, the assessment of inherent or absolute risks, as well as the identification and classification of management controls. The methodology provides the tool for the profiling of significant operational risks to which business and support units are exposed. These units then define the key management policies/procedures/controls that have been established to address the identified operational risks.

As part of the continual assessment, ORSA provides the business/support heads with an analytical tool to identify the wider operational risks, assess the adequacy of controls over these risks, and identify control deficiencies at an early stage so that timely action can be taken.

Where actions need to be taken, these are documented in the form of an ORAP for monitoring and reporting to management.

Processes and procedures of the business units are reviewed to ensure that they reflect current practices and the appropriate controls are in place with clear delineation of roles, responsibilities and accountability.

KORIs are statistical data that are collected and monitored regularly by business units on an on-going basis for the early detection of potential areas of operational control weakness. Trend analysis is carried out to determine whether there are systemic issues to be addressed.

A policy and framework on incident reporting was established to ensure consistent and accurate loss data collection. The loss database is being built and will facilitate the conduct of root cause analysis, thereby strengthening the operational risk management capability of the business units.

Included in the overall framework of operational risk is the disciplined product programme process. This process aims to ensure that the risks associated with each new product/service are identified, analysed and managed.

As part of the Bank's comprehensive operational risk framework, Business Contingency Plan has been developed. In addition, in line with the increasing need to outsource internal operations in order to achieve cost efficiency, policy has been established to regulate the outsourcing of services to third parties.

During the year, the Bank has put in place Compliance Officers to monitor and enforce compliance with the relevant laws, regulations, policies and procedures in their respective areas.

## Directors' Report

for the year ended 31 December 2004

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2004.

### Principal Activities

The principal activities of the Bank during the year are banking and related financial services. The principal activities of the subsidiaries and the associates are set out in Notes 10 and 11 to the financial statements respectively. There have been no significant changes in the nature of the principal activities during the financial year, other than as a result of a subsidiary, UOB Trustee (Malaysia) Bhd, having commenced business in trustee business.

### Financial Results

	<b>Group RM'000</b>	<b>Bank RM'000</b>
Profit before taxation	<b>526,189</b>	<b>491,094</b>
Taxation	<b>(148,992)</b>	<b>(142,225)</b>
Net profit for the year	<b>377,197</b>	<b>348,869</b>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of changes in equity.

In the opinion of the directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

### Dividends

The amount of dividends paid by the Bank since 31 December 2003 was as follows:

	<b>RM'000</b>
In respect of the financial year ended 31 December 2003 as reported in the directors' report for that year, a final dividend of 10% less 28% taxation, on 470 million ordinary shares, paid on 29 April 2004	<b>33,840</b>

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2004, of 50% less 28% taxation on 470 million ordinary shares, amounting to a dividend payable of RM169,200,000 (36 sen net per ordinary share) will be proposed for shareholders' approval. The financial statements of the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2005.

### Directors

The names of the directors of the Bank in office since the date of the last report and at the date of this report are:

Wee Cho Yaw  
Wee Ee Cheong  
Poon Hon Thang, Samuel  
YABhg Tun Dato' Seri Dr Lim Chong Eu  
Ng Kee Wei  
YM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin  
Lim Kean Chye  
Lee Chin Yong, Francis  
Ong Sea Eng, Terence

## Directors' Report

for the year ended 31 December 2004

### Directors' Benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Bank or any other body corporate, other than those arising from the share options granted under the Executive Share Option Scheme of the ultimate holding company ("UOB ESOS").

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 27 to the financial statements or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

### Directors' Interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the Bank and its related corporations during the financial year were as follows:

		Number of Ordinary Shares of S\$1 Each			
		1.1.2004	Acquired	Disposed	31.12.2004
<b>Ultimate holding corporation: United Overseas Bank Limited</b>					
Wee Cho Yaw	- Direct	16,390,248	-	-	16,390,248
	- Indirect	210,608,142	1,100,000	-	211,708,142
Wee Ee Cheong	- Direct	2,794,899	-	-	2,794,899
	- Indirect	144,985,251	1,100,000	-	146,085,251
Ng Kee Wei	- Direct	447,582	-	-	447,582
	- Indirect	1,725,189	-	-	1,725,189
Lim Kean Chye	- Direct	117	-	-	117

		Number of Options Over Ordinary Shares of S\$1 Each			
		1.1.2004	Granted	Lapsed	31.12.2004
<b>Ultimate holding corporation: United Overseas Bank Limited</b>					
Poon Hon Thang, Samuel	- Direct	125,000	45,000	(45,000)	125,000
Lee Chin Yong, Francis	- Direct	100,000	45,000	(30,000)	115,000
Ong Sea Eng, Terence	- Direct	115,000	40,000	(35,000)	120,000

Wee Cho Yaw by virtue of his interest in the shares in United Overseas Bank Limited is also deemed interested in shares of all the Bank's subsidiaries to the extent the Bank has an interest.

None of the other directors in office at the end of the financial year had any interests in shares in the Bank or its related corporations during the financial year.

## Directors' Report

for the year ended 31 December 2004

### Holding Companies

The holding and ultimate holding companies are Chung Khiaw Bank (Malaysia) Berhad, a bank incorporated in Malaysia and United Overseas Bank Limited, a bank incorporated in Singapore, respectively.

### Executive Share Options Scheme

- (a) On 6 October 1999, the ultimate holding company's shareholders approved the adoption of the UOB ESOS scheme to replace the previous Executives' Share Option Scheme. Under the UOB ESOS scheme, options may be granted to employees in the corporate grade of Vice President (or an equivalent rank) and above and selected employees below the corporate grade of Vice President (or an equivalent rank), and to directors and controlling shareholders. Particulars of the share options granted under this scheme in 1999, 2000 and 2003 (hereinafter called "Options 1999" and "Options 2000" and "Options 2003" respectively) have been set out in the ultimate holding company's directors' reports for the financial years ended 31 December 1999, 2000 and 2003 respectively;
- (b) The share options which were granted pursuant to the UOB ESOS carry the right to subscribe for new ordinary shares of United Overseas Bank Limited at the following prices:

Options	Option Period	Offer Price S\$
1999	27 December 2000 to 26 December 2004	14.70
2000	11 December 2001 to 10 December 2005	12.90
2003	6 June 2004 to 5 June 2008	11.67
2004	29 November 2005 to 28 November 2009	13.67

- (c) The share options expire at the end of the respective option periods unless they lapse earlier in the event of death, bankruptcy or cessation of employment of the participant or the take-over or winding up of the Bank.
- (d) The holders of the options have no right to participate, by virtue of the options, in any share issue of any other company.

### Overall Business Plan And Strategies For The Financial Year Ended 31 December 2004

2004 business environment was brighter than 2003, with stronger than expected economic growth, rising consumer spending and accelerating exports. In Malaysia, stable job market and rising disposable income have given households sustained spending power that generated strong growth in private consumption. Coupled with higher education standards, consumers are now more sophisticated, more aware of the importance of financial planning, more receptive of preserving their wealth and leaving a legacy for their loved ones.

To meet these changing needs, the Bank had taken several key business initiatives to stand out and be recognized as a leading foreign bank in the country. In particular, innovative products such as OSK-UOB GrowthPath, a first unit trust investment lifestyle fund that caters to the different stages of the investors' life and able to adjust to the investors' changing needs, priorities and risk appetite was launched in mid 2004 and the response had been very good. Seeing the potential to cross sell a more comprehensive portfolio of wealth management services which include accumulating, preserving and distributing customers' wealth, UOB Trustee (Malaysia) Bhd was established to pave the way for the Bank's foray into trustee and will writing services.

## Directors' Report

for the year ended 31 December 2004

### **Overall Business Plan And Strategies For The Financial Year Ended 31 December 2004 (continued)**

Other innovative value-added financial solutions launched during the year are - (1) BizInsure, an interest-free loan for business insurance premiums mainly for small and medium scale enterprises (SMEs), product of the Bank's tie up with its insurance associates to boost the Bank's bancassurance business; (2) TermRefund, a distinctive term insurance that refunds the total premium paid at maturity, giving policyholders free protection throughout the tenure of insurance. In the event of a misfortune, the proceeds from the insurance policy can help to pay any housing loan or business debts; (3) Structured Investment Linked to KLCI (SILK), a structured investment plan from the Treasury arm, that unlike any Unit Trust funds, is another customized and tailored investment plan for customers looking for opportunity to invest while enjoying higher gains with 100% principal protected if held to maturity.

Of course, product differentiation alone would not be enough to guarantee success. Realising the importance of gaining customer's loyalty, the Bank had emphasized on excellent customer service from its workforce at all times, to be consistently delivered at every delivery channels. As part of its relentless effort to deliver quality customer services, the Bank had invested in upgrading its delivery infrastructure. On the trade services, the Bank had standardized its turnaround time to 24-hours and encompassed the same standard to its intra-Group overseas network. To meet this standard, the Bank had established SWIFT Bilateral Key Exchange with its overseas network in China this year. This enable a 48-hours end-to-end turnaround time for the Bank's customers who have cross border business dealings. The Bank has also revamped its website, [www.uob.com.my](http://www.uob.com.my) for the benefit of its customers and was chosen to bear the 2003-2004 Golden Web Award. Its other websites PayOnline and UClub received the same award from the International Association of Web Masters and Designers.

Apart from upgrading its delivery channels, much was invested on advertising campaigns and loyalty programmes to retain and grow its customer base, mainly in the housing loan and credit card business. During the year, the Bank's consumer loan base had increased by RM0.8 billion or 15%, while its credit card base had grown by almost 150,000 or 70%. On the commercial-lending front, UOB BizGrowth, a comprehensive and flexible package specially designed to meet SMEs' needs was introduced in late 2004 and have been well received.

Besides expanding the traditional lending activities, emphasis was also placed on developing new income stream from capital market activities. The Bank was the Lead Arranger for seven transactions that raised over RM1.2 billion of capital for various companies. Notably, the Bank had completed a real estate backed securitization exercise involving one of the prime shopping malls in Malaysia, i.e. Mid Valley Megamall. The fund raising structure leveraged solely on the cashflow of the megamall and provided a cost effective mode of financing. In the infrastructure sector, the Bank had completed another bond issue amounting to RM174 million for Lingkar Trans Kota Sdn Bhd to fund the construction and upgrading of 6 interchanges along Lebuhraya Damansara-Puchong. The bond was structured with terms of 12 and 13 years to match the projected cashflows from the toll concession. In June 2004, three RAM (Rating Agency Malaysia) League awards were presented to the Bank as recognition for its active involvement and contribution in the development of the corporate debt market.

At the same time, the Bank had leveraged on the constant improvement of technology to drive better productivity and reduce cost to serve. One major improvement embarked upon was the deployment of the PeopleSoft Enterprise Human Capital Management software. The Bank was the first financial institution in South Asia to have successfully implemented the latest and full suite of the solutions, which was aimed at improving the Bank's operational efficiency and boost productivity of its 2,000 employees nationwide.

# Directors' Report

for the year ended 31 December 2004

## Outlook For The Financial Year Ending 31 December 2005

The 2005 global economy appears cloudier with the persistently high crude oil price and the much anticipated global down cycle in the electrical and electronic industries. The US economy is expected to endure further exchange rate adjustments to reduce its external imbalance whilst the Chinese economy is expected to slow down as its soft landing policies filtered through the system.

At home, export performance may cool down and excess liquidity is expected to persist in the banking system. After a strong 7.0% GDP growth in 2004, a more moderate GDP growth of 5.5%-6.0% is expected for the country in 2005. Competition is expected to intensify. There will be new players in Islamic banking having a slice of the market share. Nevertheless, the financial sector will continue to thrive as each new change in the industry brings forth new opportunities. The Bank is confident that it will be up to the challenge.

Leveraging on its strong financial footing, value-added innovative products/services, excellent customer service, productive workforce and sound risk management practice, the Bank is poised to compete effectively in the coming year.

## Rating By External Rating Agencies

Rating Agency Malaysia ('RAM') had reaffirmed the Bank's long term rating at AA1 and its short term rating at P1.

An 'AA' rating is defined by RAM as being able to offer high safety for timely repayment of financial obligations. The subscript 1 in this category indicates the higher end in the 'AA' category. A P1 rating is defined by RAM as obligations which are supported by a superior capacity for timely repayment.

## Other Statutory Information

- (a) Before the balance sheets and income statements of the Group and of the Bank were made out, the directors took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
  - (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
  - (ii) the values attributed to current assets in the financial statements of the Group and of the Bank misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.

## Directors' Report

for the year ended 31 December 2004

### Other Statutory Information (continued)

- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group and of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability in respect of the Group and of the Bank which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Bank to meet its obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Bank for the financial year in which this report is made.

### Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors

Wee Cho Yaw

Lee Chin Yong, Francis

Kuala Lumpur, Malaysia

Date: 16 February 2005



## Statement By Directors

Pursuant To Section 169(15) Of The Companies Act, 1965

We, Wee Cho Yaw and Lee Chin Yong, Francis, being two of the directors of United Overseas Bank (Malaysia) Bhd, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 27 to 79 are drawn up in accordance with the applicable Approved Accounting Standards in Malaysia, circulars and guidelines issued by Bank Negara Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2004 and of the results and cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors

Wee Cho Yaw

Lee Chin Yong, Francis

Kuala Lumpur, Malaysia  
16 February 2005

## Statutory Declaration

Pursuant To Section 169(16) Of The Companies Act, 1965

I, Lee Chin Yong, Francis, being the director primarily responsible for the financial management of United Overseas Bank (Malaysia) Bhd, do solemnly and sincerely declare that the accompanying financial statements set out on pages 27 to 79 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the  
abovenamed Lee Chin Yong, Francis  
at Kuala Lumpur in the Federal Territory  
on 16 February 2005

Lee Chin Yong, Francis

Before me,

Soh Ah Kau, AMN  
Commissioner for Oaths

# Report Of The Auditors To The Members Of United Overseas Bank (Malaysia) Bhd

for the year ended 31 December 2004

We have audited the accompanying financial statements set out on pages 27 to 79. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965, applicable Approved Accounting Standards in Malaysia and circulars and guidelines issued by Bank Negara Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Bank as at 31 December 2004 and of the results and the cash flows of the Group and of the Bank for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

Ernst & Young  
AF: 0039  
Chartered Accountants

Choong Mei Ling  
No. 1918/09/06 (J)  
Partner

Kuala Lumpur, Malaysia  
16 February 2005

## Balance Sheets

as at 31 December 2004

	Note	Group		Bank	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Assets</b>					
Cash and short-term funds	3	<b>2,910,943</b>	5,184,022	<b>2,910,943</b>	5,184,022
Securities purchased under resale agreements		<b>3,668,835</b>	436,686	<b>3,668,835</b>	436,686
Deposits and placements with financial institutions	4	<b>450,000</b>	2,876	<b>450,000</b>	2,876
Dealing securities	5	<b>878,241</b>	3,452,631	<b>878,241</b>	3,452,631
Investment securities	6	<b>3,638,850</b>	336,735	<b>3,638,850</b>	336,735
Loans and advances	7	<b>16,189,922</b>	14,564,676	<b>16,189,922</b>	14,564,676
Other assets	8	<b>203,695</b>	207,980	<b>204,402</b>	208,483
Statutory deposits with Bank Negara Malaysia	9	<b>485,000</b>	388,000	<b>485,000</b>	388,000
Investment in subsidiaries	10	-	-	<b>151</b>	51
Investment in associates	11	<b>142,457</b>	132,580	<b>122,733</b>	122,733
Property, plant and equipment	12	<b>264,267</b>	269,047	<b>264,150</b>	269,047
Deferred tax assets	13	<b>37,407</b>	40,502	<b>37,407</b>	40,502
<b>Total Assets</b>		<b>28,869,617</b>	25,015,735	<b>28,850,634</b>	25,006,442
<b>Liabilities And Shareholders' Funds</b>					
Deposits from customers	14	<b>15,907,311</b>	13,519,686	<b>15,908,324</b>	13,519,934
Deposits and placements of banks and other financial institutions	15	<b>4,000,651</b>	4,257,349	<b>4,000,651</b>	4,257,349
Obligations on securities sold under repurchase agreements		<b>3,128,205</b>	2,111,890	<b>3,128,205</b>	2,111,890
Bills and acceptances payable		<b>1,982,728</b>	1,557,762	<b>1,982,728</b>	1,557,762
Amount due to Cagamas	16	<b>1,361,055</b>	1,491,785	<b>1,361,055</b>	1,491,785
Other liabilities	17	<b>472,692</b>	386,595	<b>471,916</b>	386,788
Taxation		<b>45,751</b>	43,983	<b>45,843</b>	44,074
<b>Total Liabilities</b>		<b>26,898,393</b>	23,369,050	<b>26,898,722</b>	23,369,582
<b>Share Capital</b>	18	<b>470,000</b>	470,000	<b>470,000</b>	470,000
<b>Reserves</b>	19	<b>1,471,791</b>	1,128,411	<b>1,481,912</b>	1,166,860
<b>Shareholders' Funds</b>		<b>1,941,791</b>	1,598,411	<b>1,951,912</b>	1,636,860
Negative Goodwill	20	<b>29,433</b>	48,274	-	-
<b>Total Liabilities And Shareholders' Funds</b>		<b>28,869,617</b>	25,015,735	<b>28,850,634</b>	25,006,442
<b>Commitments And Contingencies</b>	32	<b>39,708,420</b>	23,175,241	<b>39,708,420</b>	23,175,241

The accompanying notes form an integral part of the financial statements.

## Income Statements

for the year ended 31 December 2004

	Note	Group		Bank	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Operating revenue	21	<b>1,509,691</b>	1,390,777	<b>1,510,486</b>	1,390,775
Interest income	22	<b>1,208,694</b>	1,070,483	<b>1,208,687</b>	1,070,477
Interest expense	23	<b>(652,319)</b>	(542,000)	<b>(652,319)</b>	(542,000)
Net interest income		<b>556,375</b>	528,483	<b>556,368</b>	528,477
Loan loss and provision	24	<b>(40,757)</b>	(77,086)	<b>(40,908)</b>	(77,046)
		<b>515,618</b>	451,397	<b>515,460</b>	451,431
Non-interest income	25	<b>258,358</b>	265,510	<b>259,149</b>	265,510
(Provision)/write back of provision for commitments and contingencies, net		<b>(692)</b>	69	<b>(692)</b>	69
Net income		<b>773,284</b>	716,976	<b>773,917</b>	717,010
Overhead expenses	26	<b>(283,528)</b>	(250,046)	<b>(282,823)</b>	(250,046)
		<b>489,756</b>	466,930	<b>491,094</b>	466,964
Amortisation of goodwill, net		<b>17,114</b>	(1,621)	-	-
		<b>506,870</b>	465,309	<b>491,094</b>	466,964
Share of profit of associates		<b>19,319</b>	20,461	-	-
Profit before taxation		<b>526,189</b>	485,770	<b>491,094</b>	466,964
Taxation					
- Bank and subsidiaries	28	<b>(141,925)</b>	(121,304)	<b>(142,225)</b>	(121,304)
- associates	28	<b>(7,067)</b>	(6,864)	-	-
Profit after taxation		<b>377,197</b>	357,602	<b>348,869</b>	345,660
Basic earnings per share (sen)	29	<b>80.3</b>	76.1	<b>74.2</b>	73.5
Dividends per share (sen)	30	<b>36.0</b>	36.0	<b>36.0</b>	36.0

The accompanying notes form an integral part of the financial statements.

## Consolidated Statement Of Changes In Equity

for the year ended 31 December 2004

The Group	Note	Non-distributable			Distributable		Total RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Revaluation reserves RM'000	Retained profits RM'000	
<b>2004</b>							
Balance as at 1 January 2004		<b>470,000</b>	<b>322,555</b>	<b>470,000</b>	<b>35,509</b>	<b>300,347</b>	<b>1,598,411</b>
Net profit for the year		-	-	-	-	<b>377,197</b>	<b>377,197</b>
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	<b>(368)</b>	<b>368</b>	-
Transfer to deferred tax	13	-	-	-	<b>23</b>	-	<b>23</b>
Dividends paid:							
- final dividend for the year ended 31 December 2003	30	-	-	-	-	<b>(33,840)</b>	<b>(33,840)</b>
Balance as at 31 December 2004		<b>470,000</b>	<b>322,555</b>	<b>470,000</b>	<b>35,164</b>	<b>644,072</b>	<b>1,941,791</b>
<b>2003</b>							
Balance as at 1 January 2003		470,000	322,555	467,107	37,976	252,769	1,550,407
Net profit for the year		-	-	-	-	357,602	357,602
Transfer to statutory reserve		-	-	2,893	-	(2,893)	-
Reserve on consolidation arising on acquisition of Overseas Union Bank (Malaysia) Berhad		-	-	-	-	7	7
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	(2,596)	2,498	(98)
Transfer to deferred tax	13	-	-	-	129	-	129
Dividends paid:							
- final dividend for the year ended 31 December 2002		-	-	-	-	(174,276)	(174,276)
- interim dividend for the year ended 31 December 2003	30	-	-	-	-	(135,360)	(135,360)
Balance as at 31 December 2003		470,000	322,555	470,000	35,509	300,347	1,598,411

The accompanying notes form an integral part of the financial statements.

## Statement Of Changes In Equity

for the year ended 31 December 2004

The Bank	Note	Non-distributable				Distributable	Total RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Revaluation reserves RM'000	Retained profits RM'000	
<b>2004</b>							
Balance as at 1 January 2004		<b>470,000</b>	<b>322,555</b>	<b>470,000</b>	<b>50,561</b>	<b>323,744</b>	<b>1,636,860</b>
Net profit for the year		-	-	-	-	<b>348,869</b>	<b>348,869</b>
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	<b>(368)</b>	<b>368</b>	-
Transfer to deferred tax	13	-	-	-	<b>23</b>	-	<b>23</b>
Dividends paid:							
- final dividend for the year ended 31 December 2003	30	-	-	-	-	<b>(33,840)</b>	<b>(33,840)</b>
Balance as at 31 December 2004		<b>470,000</b>	<b>322,555</b>	<b>470,000</b>	<b>50,216</b>	<b>639,141</b>	<b>1,951,912</b>
<b>2003</b>							
Balance as at 1 January 2003		470,000	322,555	467,107	53,028	288,115	1,600,805
Net profit for the year		-	-	-	-	345,660	345,660
Transfer to statutory reserve		-	-	2,893	-	(2,893)	-
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	(2,596)	2,498	(98)
Transfer to deferred tax	13	-	-	-	129	-	129
Dividends paid:							
- final dividend for the year ended 31 December 2002		-	-	-	-	(174,276)	(174,276)
- interim dividend for the year ended 31 December 2003	30	-	-	-	-	(135,360)	(135,360)
Balance as at 31 December 2003		470,000	322,555	470,000	50,561	323,744	1,636,860

The accompanying notes form an integral part of the financial statements.

## Cash Flow Statements

for the year ended 31 December 2004

	Note	Group		Bank	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Cash Flows From Operating Activities</b>					
Profit before taxation		526,189	485,770	491,094	466,964
Adjustments for:					
Share of profits of associates		(19,319)	(20,461)	-	-
(Gain)/loss on disposal of property, plant and equipment		(1,460)	1,380	(1,460)	1,380
Depreciation of property, plant and equipment		26,727	23,652	26,717	23,652
Deficit on revaluation of property, plant and equipment		-	98	-	98
Provision for bad and doubtful debts		40,757	77,056	40,908	77,046
Provision for interest-in-suspense		57,949	61,380	57,955	61,384
Net(write back)/provision for diminution in value of securities		(4,642)	1,386	(4,642)	1,386
Provision/(write back) of provision for commitments and contingencies, net		692	(69)	692	(69)
Dividend income		(585)	(4,050)	(1,485)	(4,950)
Interest income from investment securities		(30,462)	(6,743)	(30,462)	(6,743)
Gain from sale of investment securities		(15,801)	(12,377)	(15,801)	(12,377)
Net loss/(profit) from sale of dealing securities		9,272	(17,350)	9,272	(17,350)
Amortisation of premium less accretion of discount		1,122	4,125	1,122	4,125
Exceptional items		-	(946)	-	(946)
Amortisation of goodwill, net		(17,114)	1,621	-	-
Operating profit before working capital changes		573,325	594,472	573,910	593,600
(Increase)/decrease in operating assets:					
Loans and advances		(1,723,952)	(1,705,191)	(1,724,109)	(1,705,186)
Dealing securities		2,572,342	(2,221,526)	2,572,342	(2,221,526)
Securities purchased under resale agreements		(3,232,149)	(80,154)	(3,232,149)	(80,154)
Statutory deposits with Bank Negara Malaysia		(97,000)	(38,000)	(97,000)	(38,000)
Other assets		4,933	(144,344)	4,081	(154,042)
		(2,475,826)	(4,189,215)	(2,476,835)	(4,198,908)
Increase/(decrease) in operating liabilities:					
Deposits from customers		2,387,625	1,536,804	2,388,390	1,536,771
Deposits and placements of banks and other financial institutions		(256,698)	2,018,423	(256,698)	2,018,423
Obligation on securities sold under repurchase agreements		1,016,315	1,159,869	1,016,315	1,159,869
Bills and acceptances payable		424,966	(114,119)	424,966	(114,119)
Amount due to Cagamas		(130,730)	589,991	(130,730)	589,991
Other liabilities		85,405	(28,312)	84,436	(18,614)
		3,526,883	5,162,656	3,526,679	5,172,321
Cash generated from operations		1,624,382	1,567,913	1,623,754	1,567,013
Taxation paid		(136,922)	(116,629)	(136,969)	(116,629)
Net cash generated from operating activities		1,487,460	1,451,284	1,486,785	1,450,384

## Cash Flow Statements

for the year ended 31 December 2004

	Note	Group		Bank	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Cash Flows From Investing Activities</b>					
Proceeds from disposal of property, plant and equipment		2,214	198,300	2,214	198,300
Purchase of property, plant and equipment		(22,701)	(32,033)	(22,574)	(32,033)
Interest income from investment securities		30,462	12,988	30,462	12,988
Net purchase of investment securities		(3,290,018)	(118,102)	(3,290,018)	(118,102)
Dividend received		468	4,050	1,116	4,950
Net cash flow from acquisition of subsidiaries		-	-	(100)	-
Net cash (used in)/generated from investing activities		<b>(3,279,575)</b>	65,203	<b>(3,278,900)</b>	66,103
<b>Cash Flows From Financing Activities</b>					
Dividends paid representing net cash used in financing activities		<b>(33,840)</b>	(309,636)	<b>(33,840)</b>	(309,636)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,825,955)</b>	1,206,851	<b>(1,825,955)</b>	1,206,851
<b>Cash and cash equivalents at beginning of year</b>		<b>5,186,898</b>	3,980,047	<b>5,186,898</b>	3,980,047
<b>Cash and cash equivalents at end of year</b>		<b>3,360,943</b>	5,186,898	<b>3,360,943</b>	5,186,898
<b>Analysis of cash and cash equivalents</b>					
Cash and short term funds	3	2,910,943	5,184,022	2,910,943	5,184,022
Deposits and placements with financial institutions	4	450,000	2,876	450,000	2,876
		<b>3,360,943</b>	5,186,898	<b>3,360,943</b>	5,186,898

The accompanying notes form an integral part of the financial statements.



# Notes To The Financial Statements

for the year ended 31 December 2004

## 1. Corporate Information

The principal activities of the Bank during the year are banking and related financial services. The principal activities of the subsidiaries and the associates are set out in Notes 10 and 11 to the financial statements respectively. There have been no significant changes in the nature of the principal activities during the financial year, other than as a result of a subsidiary, UOB Trustee (Malaysia) Bhd, having commenced business in trustee services.

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 11, Menara UOB, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The holding and ultimate holding companies of the Bank are Chung Khiaw Bank (Malaysia) Bhd, a bank incorporated in Malaysia and United Overseas Bank Limited, a bank incorporated in Singapore, respectively.

The numbers of employees in the Group and in the Company at the end of the financial year were 2,106 (2003: 1,964) and 2,101 (2003: 1,964) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 16 February 2005.

## 2. Significant Accounting Policies

### (a) Basis of Preparation

The financial statements of the Group and the Bank have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The financial statements comply with the provisions of the Companies Act, 1965, Bank Negara Guidelines and applicable Approved Accounting Standards in Malaysia.

### (b) Basis of Consolidation

#### (i) Subsidiaries

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries. Subsidiaries are those entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. At the date of acquisition, the fair value of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiaries to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences.

# Notes To The Financial Statements

for the year ended 31 December 2004

## 2. Summary Of Significant Group Accounting Policies (continued)

### (b) Basis of Consolidation (continued)

#### (ii) Associates

Associates are those entities in which the Group exercises significant influence but not control, through participation in the financial and operating policy decisions of the entities.

Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associates. The equity method of accounting involves recognising in the income statement the Group's share of the results of the associates for the period. The Group's investments in associates are carried in the balance sheet at an amount that reflects its share of the net assets of the associates and includes goodwill (net of accumulated amortisation) on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associates.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated unless cost cannot be recovered.

#### (iii) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries, associates over the fair value of the Group's share of their net identifiable net assets at the date of acquisition. Goodwill is amortised on a straight-line basis, through the consolidated income statement, over its useful economic life of up to a maximum of 20 years. Where indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

Negative goodwill represents the excess of fair value of the identifiable net assets of subsidiaries, associates or businesses acquired over the fair value of the consideration given. Negative goodwill is amortised on a straight-line basis, through the income statement over the remaining weighted average useful life of the identifiable depreciable/amortisable assets acquired, with the exception of the amount of negative goodwill exceeding the fair values of acquired identifiable non-monetary assets, which is recognised as income immediately.

### (c) Recognition of Interest Income

Interest income is recognised in the income statement as it accrues. Interest income includes the amortisation of premiums or accretion of discounts. Interest income on dealing and investment securities are recognised on an effective yield basis.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for more than three months instead of six months as required by Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" guideline for loans and overdrafts, trade bills, bankers' acceptances and trust receipts.

### (d) Recognition of Fees and Other Income

Loan arrangement, management and participation fees, commissions and service charges/fees are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

# Notes To The Financial Statements

for the year ended 31 December 2004

## 2. Summary Of Significant Group Accounting Policies (continued)

### (d) Recognition of Fees and Other Income (continued)

Dividends from dealing and investment securities are recognised when received and declared respectively.

### (e) Provision for Bad and Doubtful Debts

Specific provisions are made for doubtful debts which have been individually reviewed and specifically identified as substandard, bad or doubtful.

A general provision based on a percentage of the loan portfolio of the Bank is also made to cover possible losses which are not specifically identified.

An uncollectible loan or portion of a loan classified as bad is written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

The Bank observes the minimum provision policy of Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" guideline except that the Bank has lowered the default period to 3 months instead of 6 months.

### (f) Repurchase Agreements

Securities purchased under resale agreements are securities which the Bank had purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Bank has sold from its portfolio, with a commitment to repurchase at a future date. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the balance sheet.

### (g) Dealing Securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term and are stated at the lower of cost and market value on a portfolio basis. Increases or decreases in the carrying amount of the dealing securities are credited or charged to the income statement. On disposal of the dealing securities, the differences between the net disposal proceeds and their carrying amounts are charged or credited to the income statement.

Cost is the cost of purchasing a security plus accrued interest adjusted for accretion of discount or amortisation of premium. Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

### (h) Investment Securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 38 of the Banking And Financial Institutions Act, 1989, and are usually held to maturity.

Malaysian Government securities, Cagamas bonds, other Government securities and Bank Guaranteed private debt securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date. Quoted investments are stated at the lower of cost and market value on a portfolio basis. Unquoted investments are stated at cost and where applicable, adjusted for amortisation of premiums or accretion of discounts to maturity dates. Provision is made for diminution in value which is other than temporary.

# Notes To The Financial Statements

for the year ended 31 December 2004

## 2. Summary Of Significant Group Accounting Policies (continued)

### (h) Investment Securities (continued)

On disposal of the investment securities, the differences between the net disposal proceeds and their carrying amounts are charged or credited to the income statement. Transfers, if any, between investment and dealing securities are made at the lower of carrying value and market value.

### (i) Investments in Subsidiaries

Investments in subsidiaries are stated at cost and written down when the Directors consider that there is an impairment in the value of such investments. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(v).

### (j) Investments in Associates

Investment in associate is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(v).

### (k) Property, Plant and Equipment and Depreciation

Property, plant and equipment are initially stated at cost. Land and buildings are subsequently stated at valuation less accumulated depreciation and impairment losses. Revaluations are made every five years based on valuations by independent valuers on an open market value basis. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for recognition and measurement of impairment losses is in accordance with Note 2(v).

Surpluses arising on revaluation of land and buildings are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus arising held in the revaluation for the same asset. In all other cases, a decrease in carrying amount is charged to the income statement.

Freehold land and long term leasehold land (above 99 years) are not depreciated. Leasehold land and buildings are depreciated over the period of the respective leases which range from 38 years to 99 years. Depreciation of other fixed assets is calculated to write off the cost or revalued amount of the fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates of depreciation are:

	%
Buildings	2
Office furniture, fittings and equipment	10-20
Computer equipment and software	20
Motor vehicles	20

Where an indication of impairment exists, the carrying amount of the assets is assessed and written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement. Upon disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

# Notes To The Financial Statements

for the year ended 31 December 2004

## 2. Summary Of Significant Group Accounting Policies (continued)

### (l) Leases

#### (i) Finance leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership.

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for the lease assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(k).

#### (ii) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on the straight line basis over the lease period.

### (m) Off-Balance Sheet Derivatives

Off-balance sheet derivatives are initially recognised in the balance sheets at amounts paid or received, as appropriate.

Those undertaken for trading purposes are subsequently re-measured to fair value and the resultant profits and losses are taken up in the income statement.

Those entered into for hedging purposes are subsequently accounted for in a manner consistent with the accounting treatment of the hedged items.

### (n) Currency Translations

Transactions in foreign currencies are recorded in Ringgit Malaysia at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the balance sheet date are reported in Ringgit Malaysia at rates of exchange which approximate those ruling at the balance sheet date. Gains or losses on foreign exchange transactions are recognised in the income statement in the period in which they arise.

# Notes To The Financial Statements

for the year ended 31 December 2004

## 2. Summary Of Significant Group Accounting Policies (continued)

### (n) Currency Translations (continued)

The principal closing rates used in translation of foreign currency amounts are as follows:

	<b>2004</b>	<b>2003</b>
	<b>RM</b>	<b>RM</b>
Foreign currencies:		
- 1 USD	<b>3.80</b>	3.80
- 1 SGD	<b>2.33</b>	2.23
- 100 JPY	<b>3.71</b>	3.55
- 1 EURO	<b>5.18</b>	4.77

### (o) Income Tax and Deferred Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

### (p) Employee Benefits

#### (i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

#### (ii) Post-employment benefits - Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group contributes to a national defined contribution plan (the Employee Provident Fund) and the amounts contributed to the plan are charged to the income statement in the period of which they relate. Once the contributions have been paid, the Group has no further payment obligations.

# Notes To The Financial Statements

for the year ended 31 December 2004

## 2. Summary Of Significant Group Accounting Policies (continued)

### (q) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand, bank balances and deposit placements maturing less than one month held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

### (r) Other Assets

Other receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on review of all outstanding amounts as at the balance sheet date.

### (s) Bills and Acceptances Payable

Bills and acceptances payable represent the Group's own bills and acceptances rediscounted and outstanding in the market.

### (t) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

### (u) Liabilities

Deposits from customers, and deposits and placements of banks and financial institutions are stated at placement values. Other liabilities are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

### (v) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset.

### (w) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

## Notes To The Financial Statements

for the year ended 31 December 2004

### 2. Summary Of Significant Group Accounting Policies (continued)

#### (w) Financial Instruments (continued)

The accounting policies for financial instruments recognised on the balance sheet are disclosed in the individual policy statements associated with each item.

#### (i) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

### 3. Cash And Short-term Funds

	Group and Bank	
	2004	2003
	RM'000	RM'000
Cash and balances with banks and other financial institutions	209,700	111,638
Money at call and deposit placements maturing within one month	2,701,243	5,072,384
	<b>2,910,943</b>	<b>5,184,022</b>

### 4. Deposits And Placements With Financial Institutions

	Group and Bank	
	2004	2003
	RM'000	RM'000
Licensed banks	450,000	2,876

### 5. Dealing Securities

	Group and Bank	
	2004	2003
	RM'000	RM'000
Malaysian Government securities	113,303	175,526
Negotiable instruments of deposits	320,000	2,251,000
Cagamas bonds	-	332,736
Bankers' acceptances and Islamic accepted bills	-	485,570
Islamic private debt securities	281,972	143,045
Private debt securities	162,966	64,754
	<b>878,241</b>	<b>3,452,631</b>
<b>Market value of dealing securities:</b>		
Malaysian Government securities	113,740	175,940
Cagamas bonds	-	333,113
Islamic private debt securities	288,914	143,045
Private debt securities	165,260	64,754



## Notes To The Financial Statements

for the year ended 31 December 2004

### 6. Investment Securities

	Group and Bank	
	2004	2003
	RM'000	RM'000
<b>Money market instruments:</b>		
Malaysian Government securities	2,113	2,413
Negotiable instruments of deposits	3,252,000	95,000
Cagamas bonds	70,790	-
	3,324,903	97,413
<b>Quoted securities:</b>		
Shares of corporations in Malaysia	12,880	19,099
Corporate loan stocks	23,322	21,750
	3,361,105	138,262
<b>Money market instruments and quoted securities</b>		
<b>Unquoted securities</b>		
Shares	20,147	17,572
Private debt securities	334,882	229,222
	3,716,134	385,056
Amortisation of premium less accretion of discounts	(4,334)	(991)
Provision for diminution in value of investment securities:		
- quoted securities	(32,045)	(34,441)
- unquoted securities	(40,905)	(12,889)
	3,638,850	336,735
<b>(i) Market value of quoted securities:</b>		
Shares of corporations in Malaysia	6,510	7,317
Corporate loan stocks	12,452	13,013
	18,962	20,330
<b>(ii) Indicative value of unquoted securities:</b>		
Malaysian Government Securities	2,323	2,589
Cagamas bonds	70,770	-
	73,093	2,589
The carrying value of negotiable instruments of deposits' approximates the market value due to its relatively short maturities.		
<b>(iii) The maturity structure of money market instruments held for investments is as follows:</b>		
Maturing within one year	3,252,000	95,300
One year to three years	70,903	-
Three years to five years	2,000	113
Over five years	-	2,000
	3,324,903	97,413

## Notes To The Financial Statements

for the year ended 31 December 2004

### 7. Loans And Advances

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Overdrafts	<b>3,104,494</b>	3,374,768	<b>3,104,494</b>	3,374,768
Term loans and revolving credits	<b>6,015,063</b>	5,461,038	<b>6,015,063</b>	5,461,038
Housing loans	<b>4,256,003</b>	3,532,349	<b>4,256,003</b>	3,532,349
Credit cards receivable	<b>462,646</b>	341,973	<b>462,646</b>	341,973
Bills receivable	<b>113,031</b>	103,700	<b>113,031</b>	103,700
Trust receipts	<b>524,265</b>	443,168	<b>524,265</b>	443,168
Claims on customers under acceptance credits	<b>2,623,056</b>	2,251,354	<b>2,623,056</b>	2,251,354
Hire purchase	<b>10,208</b>	16,139	<b>10,208</b>	16,139
Lease receivables	<b>511</b>	657	<b>21</b>	25
Staff loans				
- Executive director	-	606	-	606
- Others	<b>90,936</b>	95,231	<b>90,936</b>	95,231
Others	-	7,598	-	7,598
	<b>17,200,213</b>	15,628,581	<b>17,199,723</b>	15,627,949
Unearned interest	<b>(288)</b>	(321)	<b>(288)</b>	(321)
	<b>17,199,925</b>	15,628,260	<b>17,199,435</b>	15,627,628
Gross loans and advances	<b>17,199,925</b>	15,628,260	<b>17,199,435</b>	15,627,628
Provision for bad and doubtful debts				
- Specific	<b>(456,227)</b>	(518,670)	<b>(455,821)</b>	(518,128)
- General	<b>(251,950)</b>	(251,950)	<b>(251,888)</b>	(251,888)
Interest-in-suspense	<b>(301,826)</b>	(292,964)	<b>(301,804)</b>	(292,936)
Net loans and advances	<b>16,189,922</b>	14,564,676	<b>16,189,922</b>	14,564,676
<b>(i) The maturity structure of loans and advances is as follows:</b>				
Maturing within one year	<b>10,197,794</b>	9,417,023	<b>10,197,304</b>	9,416,391
One year to three years	<b>702,345</b>	617,099	<b>702,345</b>	617,099
Three years to five years	<b>728,801</b>	801,478	<b>728,801</b>	801,478
Over five years	<b>5,570,985</b>	4,792,660	<b>5,570,985</b>	4,792,660
	<b>17,199,925</b>	15,628,260	<b>17,199,435</b>	15,627,628

# Notes To The Financial Statements

for the year ended 31 December 2004

## 7. Loans And Advances (continued)

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>(ii) Loans and advances analysed according to economic sectors are as follows:</b>				
Agriculture	114,420	112,406	114,420	112,406
Mining and quarrying	16,292	40,651	16,292	40,651
Manufacturing	3,584,049	3,183,139	3,583,588	3,182,532
Electricity, gas and water	44,792	121,130	44,792	121,130
Construction	958,207	856,869	958,207	856,869
Real estate	462,746	573,722	462,746	573,722
Purchase of landed property:				
- Residential	4,447,070	3,730,522	4,447,070	3,730,522
- Non-residential	616,155	576,966	616,155	576,966
General commerce	2,462,984	2,385,092	2,462,983	2,385,092
Transport, storage and communication	527,363	126,626	527,363	126,626
Finance, insurance and business services	513,665	548,637	513,665	548,637
Purchase of securities	660,709	617,870	660,709	617,870
Purchase of transport vehicles	11,008	12,558	11,008	12,558
Consumption credit	1,405,924	1,304,205	1,405,924	1,304,205
Government agencies	1,221,689	1,273,853	1,221,689	1,273,853
Others	152,852	164,014	152,824	163,989
	<b>17,199,925</b>	15,628,260	<b>17,199,435</b>	15,627,628
<b>(iii) Movements in non-performing loans (including interest receivable) are as follows:</b>				
At beginning of the year	1,787,824	1,635,755	1,787,192	1,634,942
Non-performing during the year	698,010	726,113	697,991	726,075
Recoveries	(295,593)	(273,530)	(295,431)	(273,529)
Reclassified as performing	(253,705)	(191,743)	(253,705)	(191,743)
Amount written off	(128,122)	(108,771)	(128,122)	(108,553)
At end of the year	<b>1,808,414</b>	1,787,824	<b>1,807,925</b>	1,787,192
Net non-performing loans	<b>1,050,361</b>	976,190	<b>1,050,300</b>	976,128
Ratio of net non-performing loans to total loans net of specific provision and interest-in-suspense	<b>6.39%</b>	6.59%	<b>6.39%</b>	6.59%

## Notes To The Financial Statements

for the year ended 31 December 2004

### 7. Loans And Advances (continued)

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>(iv) Movements in the provision for bad and doubtful debts and interest-in-suspense accounts are as follows:</b>				
<b>General provision</b>				
Balance as at 1 January	251,950	251,921	251,888	251,888
Provision made during the year	-	29	-	-
Balance as at 31 December	<b>251,950</b>	251,950	<b>251,888</b>	251,888
% of total loans (excluding loan to Government) less specific provision and interest-in-suspense	<b>1.65%</b>	1.86%	<b>1.65%</b>	1.86%
<b>Specific provision</b>				
Balance as at 1 January	518,670	528,049	518,128	527,329
Provision made during the year	216,792	157,612	216,774	157,594
Transfer to provision for diminution in value of investment securities	(34,079)	(13,584)	(34,079)	(13,584)
Amount written back in respect of recoveries	(160,358)	(73,101)	(160,204)	(72,905)
Amount written off	(84,798)	(80,306)	(84,798)	(80,306)
Balance as at 31 December	<b>456,227</b>	518,670	<b>455,821</b>	518,128
<b>Interest-in-suspense</b>				
Balance as at 1 January	292,964	260,826	292,936	260,765
Interest suspended during the year	163,659	158,569	163,659	158,569
Transfer to provision for diminution in value of investment securities	(9,102)	(4,013)	(9,102)	(4,013)
Amount written back in respect of recoveries	(105,710)	(97,189)	(105,704)	(97,185)
Amount written off	(39,985)	(25,229)	(39,985)	(25,200)
Balance as at 31 December	<b>301,826</b>	292,964	<b>301,804</b>	292,936

## Notes To The Financial Statements

for the year ended 31 December 2004

### 8. Other Assets

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Other receivables, deposits and prepayments	123,655	151,938	123,655	151,938
Accrued interest receivable	53,018	35,226	53,018	35,226
Amount due to subsidiaries	-	-	707	503
Precious metal accounts	23,216	17,010	23,216	17,010
Foreclosed properties	3,806	3,806	3,806	3,806
	<b>203,695</b>	<b>207,980</b>	<b>204,402</b>	<b>208,483</b>

### 9. Statutory Deposits With Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958, the amounts of which are determined as a set percentage of total eligible liabilities.

### 10. Investment In Subsidiaries

	Bank	
	2004 RM'000	2003 RM'000
Unquoted shares in Malaysia, at cost	151	51

The subsidiaries of the Bank, all of which are incorporated in Malaysia and held directly by the Bank, are as follows:

	Paid-up capital RM	Group's effective interest		Principal activities
		2004 %	2003 %	
UOB InfoTech Sdn Bhd	10,000	100	100	Dormant
United Overseas Finance (Malaysia) Bhd	2	100	100	Dormant
UOBM Nominees (Tempatan) Sdn Bhd	10,000	100	100	Nominee services
UOBM Nominees (Asing) Sdn Bhd	10,000	100	100	Nominee services
United Overseas Nominees (Tempatan) Sdn Bhd	20	100	100	Nominee services
United Overseas Nominees (Asing) Sdn Bhd	10,000	100	100	Nominee services

## Notes To The Financial Statements

for the year ended 31 December 2004

### 10. Investment In Subsidiaries (continued)

	Paid-up capital  RM	Group's effective interest		Principal activities
		2004 %	2003 %	
UOB Trustee (Malaysia) Bhd	500,000	100	-	Trustee services
Overseas Union Bank (Malaysia) Berhad	7	100	100	Dormant
OUB Credit Bhd	2	100	100	Leasing company
OUB Nominees (Tempatan) Sdn Bhd	10,000	100	100	Dormant
OUB Nominees (Asing) Sdn Bhd	10,000	100	100	Dormant

All trading transactions of United Overseas Nominees (Tempatan) Sdn Bhd, United Overseas Nominees (Asing) Sdn Bhd, UOBM Nominees (Asing) Sdn Bhd and UOBM Nominees (Tempatan) Sdn Bhd are entered into as agents for the Bank and the records accordingly are incorporated into the books and financial statements of the Bank.

During the year, a subsidiary company, UOB Trustee (Malaysia) Bhd has commenced business in trustee services.

### 11. Investment In Associates

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Unquoted shares, at cost	122,733	122,733	122,733	122,733
Share of post-acquisition reserves	19,724	9,847	-	-
	<b>142,457</b>	132,580	<b>122,733</b>	122,733
The Group's interest in the associates is analysed as follows:				
Share of net assets	119,410	107,806		
Goodwill on acquisition	23,047	24,774		
	<b>142,457</b>	132,580		

The associates, all of which are incorporated in Malaysia, are as follows:

	Group's effective interest		Principal activities
	2004 %	2003 %	
OSK-UOB Unit Trust Management Berhad	30	30	Management of unit trust funds
Uni.Asia Capital Sdn Bhd	49	49	Investment holding company

## Notes to Financial Statements

for the financial year ended 31 December 2004

### 12. Property, Plant And Equipment

Group	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
<b>Cost/Valuation</b>								
At 1 January 2004	46,563	29,512	123,638	102,988	118,883	4,445	4,285	430,314
Additions	-	1,300	700	3,250	13,933	3,518	-	22,701
Disposals	(380)	-	(121)	(839)	(416)	(2,630)	-	(4,386)
Reclassification	-	-	-	1,362	2,824	-	(4,186)	-
At 31 December 2004	46,183	30,812	124,217	106,761	135,224	5,333	99	448,629
Representing:								
At cost	-	1,300	2,552	106,761	135,224	5,333	99	251,269
At valuation	46,183	29,512	121,665	-	-	-	-	197,360
	46,183	30,812	124,217	106,761	135,224	5,333	99	448,629
<b>Accumulated Depreciation and Impairment Losses</b>								
At 1 January 2004								
Accumulated depreciation	-	308	4,761	65,979	80,831	3,757	-	155,636
Accumulated impairment loss	3,288	64	2,279	-	-	-	-	5,631
	3,288	372	7,040	65,979	80,831	3,757	-	161,267
Depreciation charge	-	448	5,265	5,898	14,546	570	-	26,727
Disposals	-	-	(8)	(701)	(294)	(2,629)	-	(3,632)
At 31 December 2004	3,288	820	12,297	71,176	95,083	1,698	-	184,362
Analysed as:								
Accumulated depreciation	-	756	10,018	71,176	95,083	1,698	-	178,731
Accumulated impairment loss	3,288	64	2,279	-	-	-	-	5,631
	3,288	820	12,297	71,176	95,083	1,698	-	184,362
<b>Net Book Value</b>								
At 31 December 2004:								
At cost	-	-	-	35,585	40,141	3,635	99	79,460
At valuation	42,895	29,992	111,920	-	-	-	-	184,807
	42,895	29,992	111,920	35,585	40,141	3,635	99	264,267
At 31 December 2003:								
At cost	-	1,787	1,984	37,009	38,052	688	4,285	83,805
At valuation	43,275	27,353	114,614	-	-	-	-	185,242
	43,275	29,140	116,598	37,009	38,052	688	4,285	269,047
<b>Depreciation charge for 2003</b>	-	309	4,814	5,360	12,969	200	-	23,652

## Notes to Financial Statements

for the financial year ended 31 December 2004

### 12. Property, Plant And Equipment (continued)

Bank	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
<b>Cost/Valuation</b>								
At 1 January 2004	46,563	29,512	123,638	102,988	118,883	4,445	4,285	430,314
Additions	-	1,300	700	3,123	13,933	3,518	-	22,574
Disposals	(380)	-	(121)	(839)	(416)	(2,630)	-	(4,386)
Reclassification	-	-	-	1,362	2,824	-	(4,186)	-
At 31 December 2004	46,183	30,812	124,217	106,634	135,224	5,333	99	448,502
Representing:								
At cost	-	1,300	2,552	106,634	135,224	5,333	99	251,142
At valuation	46,183	29,512	121,665	-	-	-	-	197,360
	46,183	30,812	124,217	106,634	135,224	5,333	99	448,502
<b>Accumulated Depreciation and Impairment Losses</b>								
At 1 January 2004								
Accumulated depreciation	-	308	4,761	65,979	80,831	3,757	-	155,636
Accumulated impairment loss	3,288	64	2,279	-	-	-	-	5,631
	3,288	372	7,040	65,979	80,831	3,757	-	161,267
Depreciation charge	-	448	5,265	5,888	14,546	570	-	26,717
Disposals	-	-	(8)	(701)	(294)	(2,629)	-	(3,632)
At 31 December 2004	3,288	820	12,297	71,166	95,083	1,698	-	184,352
Analysed as:								
Accumulated depreciation	-	756	10,018	71,166	95,083	1,698	-	178,721
Accumulated impairment loss	3,288	64	2,279	-	-	-	-	5,631
	3,288	820	12,297	71,166	95,083	1,698	-	184,352
<b>Net Book Value</b>								
At 31 December 2004:								
At cost	-	-	-	35,468	40,141	3,635	99	79,343
At valuation	42,895	29,992	111,920	-	-	-	-	184,807
	42,895	29,992	111,920	35,468	40,141	3,635	99	264,150
At 31 December 2003:								
At cost	-	1,787	1,984	37,009	38,052	688	4,285	83,805
At valuation	43,275	27,353	114,614	-	-	-	-	185,242
	43,275	29,140	116,598	37,009	38,052	688	4,285	269,047
<b>Depreciation charge for 2003</b>	-	309	4,814	5,360	12,969	200	-	23,652



## Notes To The Financial Statements

for the year ended 31 December 2004

### 12. Property, Plant And Equipment (continued)

Land and buildings were last revalued on 31 December 2002 by the following independent qualified valuers using the comparative and investment method to reflect the fair value:

- (a) Henry Butcher, Lim & Long Sdn Bhd
- (b) Knight Frank, Ooi & Zaharin Sdn Bhd
- (c) CH Williams Talhar & Wong Sdn Bhd

The book values of land and buildings were adjusted to reflect the revaluations and the resultant surpluses were credited to revaluation reserve.

The net book values of land and buildings, had these assets been carried at cost less accumulated depreciation:

	Group and Bank	
	2004	2003
	RM'000	RM'000
Freehold land	33,580	33,714
Long leasehold land	8,629	7,442
Short leasehold land	488	499
Freehold building	11,056	11,431
Long leasehold building	39,159	39,560
	<b>92,912</b>	<b>92,646</b>

### 13. Deferred Tax

	Group and Bank	
	2004	2003
	RM'000	RM'000
At 1 January 2004	40,502	37,960
Recognised in the income statement (Note 28)	(3,118)	2,413
Recognised in equity	23	129
At 31 December 2004	<b>37,407</b>	<b>40,502</b>
An analysis of the Bank's deferred tax position is as follows:		
Deferred tax assets	70,784	70,813
Deferred tax liabilities	(33,377)	(30,311)
	<b>37,407</b>	<b>40,502</b>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal tax authority.

## Notes To The Financial Statements

for the year ended 31 December 2004

### 13. Deferred Tax (continued)

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

#### Deferred tax assets - Group and Bank

	<b>General provision for doubtful debts RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
At 1 January 2003	70,529	800	71,329
Charged to income statement	-	(516)	(516)
At 1 January 2004	70,529	284	70,813
Charged to income statement	-	(29)	(29)
At 31 December 2004	70,529	255	70,784

#### Deferred tax liabilities - Group and Bank

	<b>Property, plant and equipment RM'000</b>	<b>Revaluation of land and buildings RM'000</b>	<b>Total RM'000</b>
At 1 January 2003	11,432	21,937	33,369
Credited to income statement	(2,929)	-	(2,929)
Recognised in equity	-	(129)	(129)
At 1 January 2004	8,503	21,808	30,311
Charged to income statement	465	2,624	3,089
Recognised in equity	-	(23)	(23)
At 31 December 2004	8,968	24,409	33,377

Deferred tax assets have not been recognised in respect of the following items:

	<b>Group</b>	
	<b>2004 RM'000</b>	<b>2003 RM'000</b>
Unutilised tax losses	<b>63,623,126</b>	63,091,980
Unabsorbed capital allowances	<b>11,060,929</b>	11,076,295
	<b>74,684,055</b>	74,168,275

The unutilised tax losses and unabsorbed capital allowances are available for offset against future taxable profits of the respective subsidiaries in which those items arose. Deferred tax assets have not been recognised in respect of those items as they may not be used to offset taxable profits of other subsidiaries in the Group. They have arisen in subsidiaries that have past losses of which the deferred tax assets are recognised to the extent that future taxable profits will be available.

## Notes To The Financial Statements

for the year ended 31 December 2004

### 14. Deposits From Customers

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Demand deposits	1,910,845	1,866,738	1,911,858	1,866,986
Savings deposits	1,233,194	1,085,911	1,233,194	1,085,911
Fixed deposits	11,496,862	10,133,485	11,496,862	10,133,485
Negotiable instruments of deposits	1,239,529	424,070	1,239,529	424,070
Others	26,881	9,482	26,881	9,482
	<b>15,907,311</b>	13,519,686	<b>15,908,324</b>	13,519,934

**(i) The maturity structure of fixed deposits and negotiable instruments deposits is as follows:**

Due within six months	9,176,373	7,971,048	9,176,373	7,971,048
Six months to one year	3,235,408	2,339,669	3,235,408	2,339,669
One year to three years	71,367	166,649	71,367	166,649
Three years to five years	34,404	898	34,404	898
Over five years	218,839	79,291	218,839	79,291
	<b>12,736,391</b>	10,557,555	<b>12,736,391</b>	10,557,555

**(ii) The deposits are sourced from the following customers:**

Business enterprises	3,802,002	4,095,244	3,803,015	4,095,492
Individuals	9,993,516	8,740,691	9,993,516	8,740,691
Others	2,111,793	683,751	2,111,793	683,751
	<b>15,907,311</b>	13,519,686	<b>15,908,324</b>	13,519,934

### 15. Deposits And Placements Of Banks And Other Financial Institutions

	Group and Bank	
	2004 RM'000	2003 RM'000
Licensed banks	3,982,273	4,142,742
Other financial institutions	18,378	114,607
	<b>4,000,651</b>	4,257,349

## Notes To The Financial Statements

for the year ended 31 December 2004

### 16. Amount Due To Cagamas

	Group and Bank	
	2004	2003
	RM'000	RM'000
At 1 January	<b>1,491,785</b>	901,794
Amount sold during the year	<b>250,024</b>	874,298
Repayments	<b>(380,754)</b>	(284,307)
At 31 December	<b>1,361,055</b>	1,491,785

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad. The Bank is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on pre-determined prudent criteria. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the balance sheet.

### 17. Other Liabilities

	Group		Bank	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Provision for commitments and contingencies	<b>2,105</b>	1,413	<b>2,105</b>	1,413
Accrued interest payable	<b>152,440</b>	118,243	<b>152,440</b>	118,243
Accruals and provisions for operational expenses	<b>39,634</b>	41,903	<b>39,634</b>	41,903
Other accruals and provisions	<b>278,513</b>	225,036	<b>277,737</b>	225,229
	<b>472,692</b>	386,595	<b>471,916</b>	386,788

**(i) Movements in provision for commitments and contingencies are as follows:**

At 1 January	<b>1,413</b>	1,482	<b>1,413</b>	1,482
Provision made during the year	<b>2,092</b>	62	<b>2,092</b>	62
Amount written back in respect of recoveries	<b>(1,400)</b>	(131)	<b>(1,400)</b>	(131)
At 31 December	<b>2,105</b>	1,413	<b>2,105</b>	1,413

### 18. Share Capital

	Group and Bank	
	2004	2003
	RM'000	RM'000
<b>Authorised:</b>		
2,000,000,000 ordinary shares of RM1 each	<b>2,000,000</b>	2,000,000
<b>Issued and fully paid-up:</b>		
470,000,000 ordinary shares of RM1 each	<b>470,000</b>	470,000

## Notes To The Financial Statements

for the year ended 31 December 2004

### 19. Reserves

	Note	Group		Bank	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Non-distributable</b>					
Share premium		<b>322,555</b>	322,555	<b>322,555</b>	322,555
Statutory reserves	(a)	<b>470,000</b>	470,000	<b>470,000</b>	470,000
Revaluation reserves		<b>35,164</b>	35,509	<b>50,216</b>	50,561
<b>Distributable</b>					
Retained profits	(b)	<b>644,072</b>	300,347	<b>639,141</b>	323,744
		<b>1,471,791</b>	1,128,411	<b>1,481,912</b>	1,166,860

- (a) The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989, and is not distributable as dividends.
- (b) As at 31 December 2004, the Bank has tax exempt profits available for distribution of approximately RM248,764,724 (2003: RM248,764,724) before the proposed final dividend in respect of the current financial year ended 31 December 2004, subject to the agreement of the Inland Revenue Board.

The Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt income under Section 12 of the Income Tax (Amendment) Act 1999 to frank the payment of net dividends out of its entire retained earnings as at 31 December 2004.

### 20. Negative Goodwill

	Group	
	2004 RM'000	2003 RM'000
At 1 January	<b>48,274</b>	50,946
Amortisation	<b>(2,690)</b>	(2,672)
Negative goodwill recognised during the year	<b>(16,151)</b>	-
At 31 December	<b>29,433</b>	48,274

### 21. Operating Revenue

Operating revenue of the Group and the Bank comprise gross interest income after net interest suspended/recovered, fee and commission income, investment income, income from trading of dealing securities, income derived from investment securities, gross dividends, trustee and nominee services and other income derived from banking operations.

## Notes To The Financial Statements

for the year ended 31 December 2004

### 22. Interest Income

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Loans and advances	913,975	883,534	913,968	883,532
Money at call and deposit placements with financial institutions	183,718	145,948	183,718	145,948
Dealing securities	109,443	78,505	109,443	78,505
Investment securities	30,462	6,743	30,462	6,743
Others	30,167	21,258	30,173	21,258
	<b>1,267,765</b>	1,135,988	<b>1,267,764</b>	1,135,986
Amortisation of premium less accretion of discount	(1,122)	(4,125)	(1,122)	(4,125)
Net interest suspended	(57,949)	(61,380)	(57,955)	(61,384)
	<b>1,208,694</b>	1,070,483	<b>1,208,687</b>	1,070,477

### 23. Interest Expense

	Group and Bank	
	2004 RM'000	2003 RM'000
Deposits and placements of banks and other financial institutions	64,332	43,797
Deposits from other customers	397,174	367,001
Others	190,813	131,202
	<b>652,319</b>	542,000

### 24. Loan Loss And Provision

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Provision for bad and doubtful debts				
- specific provision (net)	56,434	84,511	56,570	84,690
- general provision	-	29	-	-
Bad debts				
- written off	3,339	3,237	3,339	3,047
- recovered	(19,016)	(10,691)	(19,001)	(10,691)
	<b>40,757</b>	77,086	<b>40,908</b>	77,046

## Notes To The Financial Statements

for the year ended 31 December 2004

### 25. Non-interest Income

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Fee income				
- Commission	<b>61,594</b>	52,645	<b>61,594</b>	52,645
- Guarantee fees	<b>13,376</b>	15,212	<b>13,376</b>	15,212
- Service charges and fees	<b>81,476</b>	83,485	<b>81,380</b>	83,485
- Commitment fee	<b>18,907</b>	18,766	<b>18,907</b>	18,766
- Arrangement and participation fees	<b>28,942</b>	27,505	<b>28,942</b>	27,505
	<b>204,295</b>	197,613	<b>204,199</b>	197,613
Investment income				
- Net (loss)/profit from dealing securities	<b>(9,272)</b>	17,350	<b>(9,272)</b>	17,350
- Gain from sale of investment securities	<b>15,801</b>	12,376	<b>15,801</b>	12,376
- Provision for diminution in value of investment securities, net	<b>(2,582)</b>	(1,386)	<b>(2,582)</b>	(1,386)
- Write back of diminution in value of dealing securities, net	<b>7,224</b>	-	<b>7,224</b>	-
- Gross dividends from:				
- investment securities quoted in Malaysia	<b>585</b>	4,050	<b>585</b>	4,050
- associate	-	-	<b>900</b>	900
	<b>11,756</b>	32,390	<b>12,656</b>	33,290
Other income				
- Foreign exchange gain/(loss)				
- realised	<b>29,512</b>	26,643	<b>29,512</b>	26,643
- unrealised	<b>920</b>	(1,058)	<b>920</b>	(1,058)
- Rental income	<b>618</b>	597	<b>610</b>	597
- Gain/(loss) on disposal of property, plant and equipment	<b>1,460</b>	(1,380)	<b>1,460</b>	(1,380)
- Other operating income	<b>589</b>	1,343	<b>589</b>	443
- Other non-operating income	<b>9,208</b>	9,362	<b>9,203</b>	9,362
	<b>42,307</b>	35,507	<b>42,294</b>	34,607
	<b>258,358</b>	265,510	<b>259,149</b>	265,510

## Notes To The Financial Statements

for the year ended 31 December 2004

### 26. Overhead Expenses

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Personnel costs	<b>134,709</b>	120,779	<b>134,251</b>	120,779
Establishment costs	<b>61,753</b>	59,027	<b>61,695</b>	59,027
Marketing expenses	<b>23,816</b>	20,972	<b>23,778</b>	20,972
Administration and general expenses	<b>63,250</b>	49,268	<b>63,099</b>	49,268
	<b>283,528</b>	250,046	<b>282,823</b>	250,046
<b>The above expenditure includes the following:</b>				
Directors' remuneration (Note 27)	<b>345</b>	1,524	<b>345</b>	1,524
Rental of premises	<b>2,648</b>	3,144	<b>2,648</b>	3,144
Hire of equipment	<b>133</b>	433	<b>133</b>	433
Auditors' remuneration	<b>353</b>	346	<b>353</b>	346
Depreciation of property, plant and equipment	<b>26,727</b>	23,652	<b>26,717</b>	23,652
Deficit on revaluation of property, plant and equipment	-	24	-	24
Analysis of personnel costs is as follows:				
Wages, salaries and bonus	<b>104,131</b>	95,170	<b>103,770</b>	95,170
Defined contribution retirement plan	<b>17,013</b>	15,738	<b>16,961</b>	15,738
Other employee benefits	<b>13,565</b>	9,871	<b>13,520</b>	9,871
	<b>134,709</b>	120,779	<b>134,251</b>	120,779

### 27. Directors' And CEO's Remuneration

Remuneration in aggregate for all directors charged to the income statement for the year is as follows:

	Group and Bank	
	2004 RM'000	2003 RM'000
Executive Director		
- Salary and other remuneration	-	392
- Bonus	-	820
- Benefits-in-kind	-	2
Non-Executive Directors		
- Fees	<b>345</b>	310
Total	<b>345</b>	1,524
Total (excluding benefits-in-kind)	<b>345</b>	1,522

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the year amounted to RM796,000. In the previous financial year, the remuneration of RM1,542,821 is attributable to the Chief Executive Officer who was also an executive director of the Bank.



## Notes To The Financial Statements

for the year ended 31 December 2004

### 28. Taxation

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Income tax:				
Malaysian income tax in respect of current financial year	<b>138,075</b>	130,600	<b>138,327</b>	130,600
Under/(over) provided in prior years	<b>732</b>	(6,883)	<b>780</b>	(6,883)
	<b>138,807</b>	123,717	<b>139,107</b>	123,717
Deferred tax (Note 13):				
Relating to origination and reversal of temporary differences	<b>903</b>	(2,413)	<b>903</b>	(2,413)
Underprovided in prior years	<b>2,215</b>	-	<b>2,215</b>	-
	<b>3,118</b>	(2,413)	<b>3,118</b>	(2,413)
Share of taxation of associates	<b>7,067</b>	6,864	-	-
	<b>148,992</b>	128,168	<b>142,225</b>	121,304

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Bank is as follows:

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Profit before taxation	<b>526,189</b>	485,770	<b>491,094</b>	466,964
Taxation at Malaysian statutory tax rate of 28% (2003: 28%)	<b>147,333</b>	136,016	<b>137,506</b>	130,750
Income not subject to tax	<b>(5,853)</b>	(965)	<b>(577)</b>	(2,563)
Expenses not deductible for tax purposes	<b>4,464</b>	-	<b>2,301</b>	-
Deferred tax assets not recognised	<b>152</b>	-	-	-
Effect of utilisation of previously unabsorbed capital allowances	<b>(51)</b>	-	-	-
Under/(over) provision of tax expense in prior years	<b>732</b>	(6,883)	<b>780</b>	(6,883)
Underprovision of deferred tax in prior years	<b>2,215</b>	-	<b>2,215</b>	-
Tax expense for the year	<b>148,992</b>	128,168	<b>142,225</b>	121,304

### 29. Earnings Per Share

The earnings per ordinary share of the Group and the Bank have been calculated based on the net profit after taxation but before transfer to statutory reserve of RM377,197,000 (2003: RM357,602,000) and RM348,869,000 (2003: RM345,660,000) respectively and on the number of ordinary shares of RM1.00 each in issue during the year of 470,000,000 (2003: 470,000,000).

## Notes To The Financial Statements

for the year ended 31 December 2004

### 30. Dividends

	Group and Bank			
	2004		2003	
	Net dividend per share sen	Amount of dividend, net of tax RM'000	Net dividend per share sen	Amount of dividend, net of tax RM'000
Interim dividend paid	-	-	28.8	135,360
Proposed final dividend	36.0	169,200	7.2	33,840
	<b>36.0</b>	<b>169,200</b>	<b>36.0</b>	<b>169,200</b>

At the forthcoming Annual General Meeting, a final gross dividend in respect of the financial year ended 31 December 2004, of 50% less 28% taxation on 470,000,000 ordinary shares, amounting to dividend payable of RM169,200,000 (36 sen net per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2005.

### 31. Significant Related Party Transactions And Balances

#### Related parties and relationships

The related parties of and their relationship (other than those disclosed in Notes 10 and 11 to the financial statements) with the Bank are as follows:

Related parties	Relationship
United Overseas Bank Limited	Ultimate holding company
Chung Khiaw Bank (Malaysia) Bhd	Holding company
UOB London Ltd	Other related parties
UOB New York Ltd	Other related parties
UOB Tokyo Ltd	Other related parties
UOB Canada Ltd	Other related parties
UOB Labuan	Other related parties
Chung Khiaw Realty Limited	Other related parties

## Notes To The Financial Statements

for the year ended 31 December 2004

### 31. Significant Related Party Transactions And Balances (continued)

#### Significant related party transactions and balances

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These significant related party transactions were carried out on commercial terms and at market rates. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below were carried out on terms and conditions obtainable in transactions with unrelated parties unless otherwise stated.

	Ultimate holding company RM'000	Subsidiaries RM'000	Associates RM'000	Other related companies RM'000
<b>2004</b>				
Income				
- Interest on deposits	1,965	-	-	-
- Rental income	-	40	-	32
- Dividend income	-	-	900	-
	<b>1,965</b>	<b>40</b>	<b>900</b>	<b>32</b>
Expenditure				
- Interest on deposits	50,968	5	1,070	108
- Rental expense	-	-	-	131
- Other expense - consultancy fee	-	-	-	878
	<b>50,968</b>	<b>5</b>	<b>1,070</b>	<b>1,117</b>
Amount due from				
- Cash and short-term funds	77,036	-	-	9,290
- Deposits and placements with financial institution	-	-	-	-
- Other assets	11,522	1,352	-	-
	<b>88,558</b>	<b>1,352</b>	<b>-</b>	<b>9,290</b>
Amount due to				
- Deposits from customers	-	598	4,028	5
- Deposits and placements	3,370,852	-	18,592	22,424
- Other liabilities	191,464	-	-	42
	<b>3,562,316</b>	<b>598</b>	<b>22,620</b>	<b>22,471</b>

## Notes To The Financial Statements

for the year ended 31 December 2004

### 31. Significant Related Party Transactions And Balances (continued)

	Ultimate holding company RM'000	Subsidiaries RM'000	Associates RM'000	Other related companies RM'000
<b>2003</b>				
Income				
- Interest on deposits	785	-	-	-
- Rental income	-	-	-	23
- Dividend income	-	-	900	-
	<u>785</u>	<u>-</u>	<u>900</u>	<u>23</u>
Expenditure				
- Interest on deposits	32,197	-	2,421	98
- Rental expense	-	-	-	135
- Other expense - consultancy fee	-	-	-	1,740
	<u>32,197</u>	<u>-</u>	<u>2,421</u>	<u>1,973</u>
Amount due from				
- Cash and short-term funds	14,384	-	-	7,737
- Deposits and placements with financial institution	2,877	-	-	-
- Other assets	-	300	-	-
	<u>17,261</u>	<u>300</u>	<u>-</u>	<u>7,737</u>
Amount due to				
- Deposits from customers	-	258	30,943	576
- Deposits and placements	3,681,998	-	54,379	15,644
- Other liabilities	142,878	-	-	-
	<u>3,824,876</u>	<u>258</u>	<u>85,322</u>	<u>16,220</u>

## Notes To The Financial Statements

for the year ended 31 December 2004

### 32. Commitments And Contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Group and Bank			
	2004	2003	2004	2003
	Principal amount RM'000	Credit equivalent amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000
Direct credit substitutes	778,849	778,849	693,208	693,208
Transaction-related contingent items	880,661	440,331	954,445	477,223
Short-term self-liquidating trade-related contingencies	307,371	61,474	353,821	70,764
Irrevocable commitments to extend credit				
- maturity more than one year	1,246,101	623,051	1,006,399	503,200
- maturity less than one year	11,742,716	-	10,172,853	-
Foreign exchange related contracts				
- less than one year	4,294,288	258,630	2,575,290	38,457
- more than one year	-	-	316,611	207,162
Interest rate related contracts				
- less than one year	2,034,627	15,855	1,146,000	768
- more than one year	18,158,448	131,187	5,711,500	103,905
Others	265,359	-	245,114	-
Total	<b>39,708,420</b>	<b>2,309,377</b>	23,175,241	2,094,687

The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

Foreign exchange and interest rate related contracts for the Group and the Bank are subject to market risk and credit risk.

Analysis of foreign exchange contracts and interest rate contracts is as follows:

	2004 Principal amount RM'000	2003 Principal amount RM'000
<b>The Group and Bank</b>		
Foreign exchange contract		
- forward and futures contracts	851,488	437,101
- cross currency interest rate swaps	3,442,800	2,454,800
Interest rate contracts		
- forward and futures contracts	15,210,000	3,619,500
- swaps	4,983,075	3,238,000

## Notes To The Financial Statements

for the year ended 31 December 2004

### 32. Commitments And Contingencies (continued)

#### Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off balance sheet positions. As at end of 31 December 2004 the amounts of contracts which were not hedged and hence, exposed to market risk was RM20,839,859 (2003: RM4,943,674).

#### Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at end of 31 December 2004, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM6,278,023 (2003: RM2,263,350). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates of prices.

### 33. Capital Commitments

	Group and Bank	
	2004	2003
	RM'000	RM'000
Capital expenditure for property, plant and equipment:		
- authorised and contracted for	8,105	7,059
- authorised but not contracted for	14,591	13,475
	<u>22,696</u>	<u>20,534</u>

### 34. Lease Commitments

The Group and the Bank has lease commitments in respect of related premises and equipment on hire, all of which are classified as operating leases.

A summary of the non-cancellable long term commitments, net of sub-leases is as follows:

	Group and Bank	
	2004	2003
	RM'000	RM'000
Future minimum rentals payable:		
Not later than 1 year	1,777	2,421
Later than 1 year and not later than 5 years	1,315	2,897
Later than 5 years	316	670
	<u>3,408</u>	<u>5,988</u>

## Notes To The Financial Statements

for the year ended 31 December 2004

### 35. Capital Adequacy

	2004 RM'000	2003 RM'000
<b>Bank</b>		
Tier I capital		
- paid-up share capital	470,000	470,000
- share premium	322,555	322,555
- other reserves (excluding property revaluation reserve)	1,109,141	793,744
- deferred tax adjustment	(37,407)	(40,502)
	<u>1,864,289</u>	<u>1,545,797</u>
Tier II capital		
- property revaluation reserve	25,108	25,281
- general provision for bad and doubtful debts	251,888	251,888
	<u>276,996</u>	<u>277,169</u>
Total capital	2,141,285	1,822,966
Less: Investment in subsidiaries	(151)	(51)
Capital base	<u>2,141,134</u>	<u>1,822,915</u>

**(a) The capital adequacy ratios of the Bank are as follows:**

Core capital ratio	11.89%	11.13%
Risk-weighted capital ratio	13.66%	13.13%

**(b) Analysis of gross risk-weighted assets in the various categories of risk-weights is as follows:**

0%	8,681,754	7,930,524
10%	98,934	427,874
20%	5,488,749	3,954,014
50%	4,456,385	3,650,577
100%	12,337,719	11,225,635
	<u>31,063,541</u>	<u>27,188,624</u>
Total risk-weighted assets	<u>15,673,555</u>	<u>13,884,514</u>

# Notes To The Financial Statements

for the year ended 31 December 2004

## 36. Financial Risk Management

The Bank's activities are principally related to transacting in and use of financial instruments, including derivatives. Transactions in, and the use of, financial instruments expose the Bank to a variety of financial risks, mainly credit risk, foreign exchange risk, interest rate risk and liquidity risk.

Managing financial risks is an integral part of the Bank's business and it is carried out centrally by the various specialist committees of the Bank under policies approved by the directors of the Bank. These policies not only include the parameters for the risks that the Bank may undertake for the various financial instruments, but also directions on the types of business that the Bank may engage in, guidelines for accepting customers for all types of financial instruments and the terms under which customer business is conducted.

The various specialist committees of the Bank have established processes to identify, measure, monitor and ultimately, mitigate these financial risks. Additionally, the directors of the Bank and the Bank's Risk Management Division provide an independent oversight to ensure that those risk management policies are complied with through a variety of established controls and reporting processes.

Discussions on the main financial risks that the Bank is exposed to and how it manages these risks are set out below:

### (a) Foreign exchange risk

Foreign exchange risk is the risk to earnings and values of financial instruments caused by fluctuations in foreign exchange rates.

The Bank's foreign exchange exposures arise mainly from its financial exchange position-taking or proprietary business, and customer facilitation business. The Bank utilises mainly foreign currency forwards and swaps to hedge its foreign exchange exposures.

Foreign exchange risk is managed through risk limits and policies as approved by the Group ALCO. These limits and policies such as on the level of exposure by currency and in total for both overnight and intra-day positions, are independently monitored on a daily basis by the Risk Management Division, through the Market Risk Management Department and the Settlement Department.

### (b) Credit risk

Credit risk is the potential loss arising from any failure by the Bank's customers or counter parties to fulfill their obligations as and when these obligations fall due. These obligations may arise from lending, trade finance, investments, receivables under derivative contracts and other credit-related activities undertaken by the Bank.

The Executive Committee is responsible for the management of credit risk of the Bank. Apart from direct credit management, such as approval of significant loans, it is also responsible for providing directions and timely guidance on lending to different geographical sectors, industries and products.

In general, the Bank monitors the levels of credit risk it undertakes through review by management, with independent oversight of its credit concentration and portfolio quality.

In respect of lending-related activities, management regularly reviews the amount of risk accepted in relation to one borrower or groups of borrowers, geographical and industry segments, types of acceptable security, level of non-performing loans and adequacy of provisioning requirements.

The following tables set out the credit risk concentration by economic sectors of the Group and the Bank:



## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (b) Credit risk (continued)

Group 2004	Short term funds and placements with financial institutions	Dealing securities	Investment securities	Loans and advances	Specific provision, interest-in- suspense and general provision	Other assets	On balance sheet total	Commitment and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture and mining	-	-	-	130,712	(10,294)	-	120,418	92,916
Manufacturing	-	-	-	3,584,049	(290,752)	-	3,293,297	3,609,558
Electricity, gas and water	-	159,881	276,332	44,792	(686)	-	480,319	246,654
Construction	-	-	-	958,207	(142,175)	-	816,032	1,698,232
Real estate	-	-	-	462,746	(7,089)	-	455,657	243,972
General commerce	-	66,909	-	2,462,984	(159,490)	-	2,370,403	2,159,290
Transport, infrastructure, storage and communication	-	165,662	-	527,363	(18,061)	14,162	689,126	176,071
Finance, insurance, business services and government agencies	7,029,778	437,303	3,362,518	1,735,354	(170,400)	676,935	13,071,488	26,481,993
Residential landed property, securities and transport vehicles	-	48,486	-	5,734,942	(120,587)	-	5,662,841	2,532,329
Others	-	-	-	1,558,776	(90,469)	136,249	1,604,556	2,467,403
	<b>7,029,778</b>	<b>878,241</b>	<b>3,638,850</b>	<b>17,199,925</b>	<b>(1,010,003)</b>	<b>827,346</b>	<b>28,564,137</b>	<b>39,708,420</b>
Other assets not subject to credit risk	-	-	-	-	-	305,480	305,480	-
	<b>7,029,778</b>	<b>878,241</b>	<b>3,638,850</b>	<b>17,199,925</b>	<b>(1,010,003)</b>	<b>1,132,826</b>	<b>28,869,617</b>	<b>39,708,420</b>
<b>Group 2003</b>								
Agriculture and mining	-	-	-	153,057	(25,485)	-	127,572	97,009
Manufacturing	-	-	-	3,183,139	(317,939)	-	2,865,200	3,310,409
Electricity, gas and water	-	92,159	203,893	121,130	(2,059)	-	415,123	45,309
Construction	-	-	-	856,869	(141,635)	-	715,234	1,761,893
Real estate	-	-	-	573,722	(9,754)	-	563,968	224,426
General commerce	-	63,091	-	2,385,092	(151,106)	-	2,297,077	1,961,190
Transport, infrastructure, storage and communication	-	10,057	-	126,626	(11,524)	9,248	134,407	159,582
Finance, insurance, business services and government agencies	5,623,584	3,244,833	132,842	1,822,490	(169,614)	552,856	11,206,991	11,750,901
Residential landed property, securities and transport vehicles	-	42,491	-	4,937,916	(110,052)	-	4,870,355	1,834,152
Others	-	-	-	1,468,219	(124,416)	162,650	1,506,453	2,030,370
	<b>5,623,584</b>	<b>3,452,631</b>	<b>336,735</b>	<b>15,628,260</b>	<b>(1,063,584)</b>	<b>724,754</b>	<b>24,702,380</b>	<b>23,175,241</b>
Other assets not subject to credit risk	-	-	-	-	-	313,355	313,355	-
	<b>5,623,584</b>	<b>3,452,631</b>	<b>336,735</b>	<b>15,628,260</b>	<b>(1,063,584)</b>	<b>1,038,109</b>	<b>25,015,735</b>	<b>23,175,241</b>

## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (b) Credit risk (continued)

Bank 2004	Short term funds and placements with financial institutions	Dealing securities	Investment securities	Loans and advances	Specific provision, interest-in- suspense and general provision	Other assets	On balance sheet total	Commitment and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture and mining	-	-	-	130,712	(10,294)	-	120,418	92,916
Manufacturing	-	-	-	3,583,588	(290,291)	-	3,293,297	3,609,558
Electricity, gas and water	-	159,881	276,332	44,792	(686)	-	480,319	246,654
Construction	-	-	-	958,207	(142,175)	-	816,032	1,698,232
Real estate	-	-	-	462,746	(7,089)	-	455,657	243,972
General commerce	-	66,909	-	2,462,983	(159,490)	-	2,370,402	2,159,290
Transport, infrastructure, storage and communication	-	165,662	-	527,363	(18,061)	14,162	689,126	176,071
Finance, insurance, business services and government agencies	7,029,778	437,303	3,362,518	1,735,354	(170,400)	657,212	13,051,765	26,481,993
Residential landed property, securities and transport vehicles	-	48,486	-	5,734,942	(120,587)	-	5,662,841	2,532,329
Others	-	-	-	1,558,748	(90,440)	137,106	1,605,414	2,467,403
	<b>7,029,778</b>	<b>878,241</b>	<b>3,638,850</b>	<b>17,199,435</b>	<b>(1,009,513)</b>	<b>808,480</b>	<b>28,545,271</b>	<b>39,708,420</b>
Other assets not subject to credit risk	-	-	-	-	-	305,363	305,363	-
	<b>7,029,778</b>	<b>878,241</b>	<b>3,638,850</b>	<b>17,199,435</b>	<b>(1,009,513)</b>	<b>1,113,843</b>	<b>28,850,634</b>	<b>39,708,420</b>
<b>Bank 2003</b>								
Agriculture and mining	-	-	-	153,057	(25,485)	-	127,572	97,009
Manufacturing	-	-	-	3,182,532	(317,305)	-	2,865,227	3,310,409
Electricity, gas and water	-	92,159	203,893	121,130	(2,059)	-	415,123	45,309
Construction	-	-	-	856,869	(141,635)	-	715,234	1,761,893
Real estate	-	-	-	573,722	(9,754)	-	563,968	224,426
General commerce	-	63,091	-	2,385,092	(151,107)	-	2,297,076	1,961,190
Transport, infrastructure, storage and communication	-	10,057	-	126,626	(11,524)	9,248	134,407	159,582
Finance, insurance, business services and government agencies	5,623,584	3,244,833	132,842	1,822,490	(169,614)	543,009	11,197,144	11,750,901
Residential landed property, securities and transport vehicles	-	42,491	-	4,937,916	(110,052)	-	4,870,355	1,834,152
Others	-	-	-	1,468,194	(124,417)	163,204	1,506,981	2,030,370
	<b>5,623,584</b>	<b>3,452,631</b>	<b>336,735</b>	<b>15,627,628</b>	<b>(1,062,952)</b>	<b>715,461</b>	<b>24,693,087</b>	<b>23,175,241</b>
Other assets not subject to credit risk	-	-	-	-	-	313,355	313,355	-
	<b>5,623,584</b>	<b>3,452,631</b>	<b>336,735</b>	<b>15,627,628</b>	<b>(1,062,952)</b>	<b>1,028,816</b>	<b>25,006,442</b>	<b>23,175,241</b>

## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (c) Interest rate risk

Interest rate risk is the risk to earnings and value of financial instruments caused by fluctuation in interest rates.

Sensitivity to interest rates arises from the difference in the maturities and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest rate risk management process which is conducted in accordance with the Bank's policies.

The following table shows the interest rate sensitivity gap, by time bands on which interest rates of instruments are next repriced on a contractual basis or, if earlier, the dates on which the instruments mature.

Group	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest sensitive	Effective interest Total	interest rate
2004	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Assets</b>									
Cash and short term funds	2,769,826	-	-	-	-	-	141,117	2,910,943	2.51
Securities purchased under resale agreements	1,245,517	2,423,318	-	-	-	-	-	3,668,835	2.79
Deposits and placement with financial institutions	-	450,000	-	-	-	-	-	450,000	2.77
Dealing securities	-	200,000	100,000	20,000	233,082	325,159	-	878,241	3.94
Investment securities	1,490,000	1,069,000	693,000	-	286,373	82,632	17,845	3,638,850	2.49
Loans, advances and financing	10,286,661	1,560,315	621,136	506,941	1,259,346	149,478	1,806,045	16,189,922	6.20
Other assets	-	-	-	-	-	-	1,132,826	1,132,826	
	<b>15,792,004</b>	<b>5,702,633</b>	<b>1,414,136</b>	<b>526,941</b>	<b>1,778,801</b>	<b>557,269</b>	<b>3,097,833</b>	<b>28,869,617</b>	
<b>Liabilities</b>									
Deposits from customers	6,327,559	2,418,916	1,814,081	3,243,701	107,500	208,022	1,787,532	15,907,311	2.60
Deposits and placement of banks and financial institutions	1,287,000	2,208,625	407,673	40,000	-	-	57,353	4,000,651	2.14
Obligations on securities sold under repurchase agreements	3,088,393	39,812	-	-	-	-	-	3,128,205	2.60
Bills and acceptances payable	6,135	14,251	7,458	-	-	-	1,954,884	1,982,728	2.11
Amount due to Cagamas	9,615	19,319	29,206	59,238	1,207,557	36,120	-	1,361,055	3.67
Other liabilities	-	-	-	-	-	-	518,443	518,443	
	<b>10,718,702</b>	<b>4,700,923</b>	<b>2,258,418</b>	<b>3,342,939</b>	<b>1,315,057</b>	<b>244,142</b>	<b>4,318,212</b>	<b>26,898,393</b>	
On-balance sheet interest sensitivity gap	5,073,302	1,001,710	(844,282)	(2,815,998)	463,744	313,127			
Off-balance sheet interest sensitivity gap	(175,000)	(31,000)	433,150	24,000	(255,150)	4,000			
Total interest sensitivity gap	<b>4,898,302</b>	<b>970,710</b>	<b>(411,132)</b>	<b>(2,791,998)</b>	<b>208,594</b>	<b>317,127</b>			

## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (c) Interest rate risk (continued)

Group 2003	Up to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Effective interest Total RM'000	rate %
<b>Assets</b>									
Cash and short term funds	5,072,384	-	-	-	-	-	111,638	5,184,022	3.04
Securities purchased under resale agreements	-	62,400	-	374,286	-	-	-	436,686	3.25
Deposits and placement with financial institutions	-	2,876	-	-	-	-	-	2,876	3.04
Dealing securities	1,091,693	1,127,095	613,685	-	481,462	138,696	-	3,452,631	3.73
Investment securities	95,000	-	300	-	38,207	182,648	20,580	336,735	2.91
Loans, advances and financing	10,403,113	921,537	612,082	140,919	825,727	217,053	1,444,245	14,564,676	6.50
Other assets	-	-	-	-	-	-	1,038,109	1,038,109	
	<u>16,662,190</u>	<u>2,113,908</u>	<u>1,226,067</u>	<u>515,205</u>	<u>1,345,396</u>	<u>538,397</u>	<u>2,614,572</u>	<u>25,015,735</u>	
<b>Liabilities</b>									
Deposits from customers	5,379,737	2,238,439	1,580,481	2,340,864	167,547	79,291	1,733,327	13,519,686	2.78
Deposits and placement of banks and financial institutions	1,907,783	1,599,165	566,405	114,000	-	-	69,996	4,257,349	1.12
Obligations on securities sold under repurchase agreements	2,107,491	4,399	-	-	-	-	-	2,111,890	3.28
Bills and acceptances payable	269	14,541	18,989	-	-	-	1,523,963	1,557,762	2.12
Amount due to Cagamas	9,631	172,899	99,661	49,046	1,086,636	73,912	-	1,491,785	3.69
Other liabilities	-	-	-	-	-	-	430,578	430,578	
	<u>9,404,911</u>	<u>4,029,443</u>	<u>2,265,536</u>	<u>2,503,910</u>	<u>1,254,183</u>	<u>153,203</u>	<u>3,757,864</u>	<u>23,369,050</u>	
On-balance sheet interest sensitivity gap	7,257,279	(1,915,535)	(1,039,469)	(1,988,705)	91,213	385,194			
Off-balance sheet interest sensitivity gap	(280,000)	75,600	(113,600)	503,000	(45,100)	(139,900)			
Total interest sensitivity gap	<u>6,977,279</u>	<u>(1,839,935)</u>	<u>(1,153,069)</u>	<u>(1,485,705)</u>	<u>46,113</u>	<u>245,294</u>			

# Notes To The Financial Statements

for the year ended 31 December 2004

## 36. Financial Risk Management (continued)

### (c) Interest rate risk (continued)

Bank 2004	Up to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Effective interest Total RM'000	rate %
<b>Assets</b>									
Cash and short term funds	2,769,826	-	-	-	-	-	141,117	2,910,943	2.51
Securities purchased under resale agreements	1,245,517	2,423,318	-	-	-	-	-	3,668,835	2.79
Deposits and placement with financial institutions	-	450,000	-	-	-	-	-	450,000	2.77
Dealing securities	-	200,000	100,000	20,000	233,082	325,159	-	878,241	3.94
Investment securities	1,490,000	1,069,000	693,000	-	286,373	82,632	17,845	3,638,850	2.49
Loans, advances and financing	10,286,661	1,560,315	621,136	506,941	1,259,346	149,478	1,806,045	16,189,922	6.20
Other assets	-	-	-	-	-	-	1,113,843	1,113,843	
	<b>15,792,004</b>	<b>5,702,633</b>	<b>1,414,136</b>	<b>526,941</b>	<b>1,778,801</b>	<b>557,269</b>	<b>3,078,850</b>	<b>28,850,634</b>	
<b>Liabilities</b>									
Deposits from customers	6,328,572	2,418,916	1,814,081	3,243,701	107,500	208,022	1,787,532	15,908,324	2.60
Deposits and placement of banks and financial institutions	1,287,000	2,208,625	407,673	40,000	-	-	57,353	4,000,651	2.14
Obligations on securities sold under repurchase agreements	3,088,393	39,812	-	-	-	-	-	3,128,205	2.60
Bills and acceptances payable	6,135	14,251	7,458	-	-	-	1,954,884	1,982,728	2.11
Amount due to Cagamas	9,615	19,319	29,206	59,238	1,207,557	36,120	-	1,361,055	3.67
Other liabilities	-	-	-	-	-	-	517,759	517,759	
	<b>10,719,715</b>	<b>4,700,923</b>	<b>2,258,418</b>	<b>3,342,939</b>	<b>1,315,057</b>	<b>244,142</b>	<b>4,317,528</b>	<b>26,898,722</b>	
On-balance sheet interest sensitivity gap	5,072,289	1,001,710	(844,282)	(2,815,998)	463,744	313,127			
Off-balance sheet interest sensitivity gap	(175,000)	(31,000)	433,150	24,000	(255,150)	4,000			
Total interest sensitivity gap	<b>4,897,289</b>	<b>970,710</b>	<b>(411,132)</b>	<b>(2,791,998)</b>	<b>208,594</b>	<b>317,127</b>			

## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (c) Interest rate risk (continued)

Bank 2003	Up to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non interest sensitive RM'000	Effective interest Total RM'000	rate %
<b>Assets</b>									
Cash and short term funds	5,072,384	-	-	-	-	-	111,638	5,184,022	3.04
Securities purchased under resale agreements	-	62,400	-	374,286	-	-	-	436,686	3.25
Deposits and placement with financial institutions	-	2,876	-	-	-	-	-	2,876	3.04
Dealing securities	1,091,693	1,127,095	613,685	-	481,462	138,696	-	3,452,631	3.73
Investment securities	95,000	-	300	-	38,207	182,648	20,580	336,735	2.91
Loans, advances and financing	10,403,113	921,537	612,082	140,919	825,727	217,053	1,444,245	14,564,676	6.50
Other assets	-	-	-	-	-	-	1,028,816	1,028,816	
	<u>16,662,190</u>	<u>2,113,908</u>	<u>1,226,067</u>	<u>515,205</u>	<u>1,345,396</u>	<u>538,397</u>	<u>2,605,279</u>	<u>25,006,442</u>	
<b>Liabilities</b>									
Deposits from customers	5,379,984	2,238,439	1,580,481	2,340,864	167,547	79,291	1,733,328	13,519,934	2.78
Deposits and placement of banks and financial institutions	1,907,783	1,599,165	566,405	114,000	-	-	69,996	4,257,349	1.12
Obligations on securities sold under repurchase agreements	2,107,491	4,399	-	-	-	-	-	2,111,890	3.28
Bills and acceptances payable	269	14,541	18,989	-	-	-	1,523,963	1,557,762	2.12
Amount due to Cagamas	9,631	172,899	99,661	49,046	1,086,636	73,912	-	1,491,785	3.69
Other liabilities	-	-	-	-	-	-	430,862	430,862	
	<u>9,405,158</u>	<u>4,029,443</u>	<u>2,265,536</u>	<u>2,503,910</u>	<u>1,254,183</u>	<u>153,203</u>	<u>3,758,149</u>	<u>23,369,582</u>	
On-balance sheet interest sensitivity gap	7,257,032	(1,915,535)	(1,039,469)	(1,988,705)	91,213	385,194			
Off-balance sheet interest sensitivity gap	(280,000)	75,600	(113,600)	503,000	(45,100)	(139,900)			
Total interest sensitivity gap	<u>6,977,032</u>	<u>(1,839,935)</u>	<u>(1,153,069)</u>	<u>(1,485,705)</u>	<u>46,113</u>	<u>245,294</u>			

# Notes To The Financial Statements

for the year ended 31 December 2004

## **36. Financial Risk Management (continued)**

### **(c) Interest rate risk (continued)**

Actual repricing dates may differ from contractual dates because prepayments and contractual terms do not reflect the actual behavioural patterns of assets and liabilities. Therefore, the Bank manages its interest risk by applying dynamic simulation modelling techniques on the above information, which is based on contractual terms.

### **(d) Liquidity risk**

Liquidity risk is the risk that the Bank is unable to meet its cash flow obligations as and when they fall due, such as upon the maturity of deposits and loan draw-downs.

It is not unusual for a bank to have mismatches in the contractual maturity profile of its assets and liabilities. The Bank manages liquidity risk in accordance with a framework of liquidity policies, controls and limits that are approved by the Asset Liability Committee, with the main objectives of honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements under the guidelines issued by Bank Negara Malaysia, and avoiding raising funds at market premiums or through forced sale of assets.

These controls and policies include the setting of limits on the minimum proportion of maturing funds available to meet such and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demands.

## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (d) Liquidity risk (continued)

Group 2004	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
<b>Assets</b>							
Cash and short term funds	2,910,943	-	-	-	-	-	2,910,943
Securities purchased under resale agreement	3,668,835	-	-	-	-	-	3,668,835
Deposits and placement with financial institutions	450,000	-	-	-	-	-	450,000
Dealing securities	200,000	100,000	20,000	233,082	325,159	-	878,241
Investment securities	2,559,000	693,000	-	286,373	82,632	17,845	3,638,850
Loans and advances	7,064,683	1,006,684	787,327	3,543,494	3,787,734	-	16,189,922
Other assets	-	-	-	-	-	1,132,826	1,132,826
	<b>16,853,461</b>	<b>1,799,684</b>	<b>807,327</b>	<b>4,062,949</b>	<b>4,195,525</b>	<b>1,150,671</b>	<b>28,869,617</b>
<b>Liabilities</b>							
Deposits from customers	10,507,125	1,814,081	3,243,701	107,500	208,022	26,882	15,907,311
Deposits and placement of banks and financial institutions	3,552,978	407,673	40,000	-	-	-	4,000,651
Obligations on securities sold under repurchase agreements	3,128,205	-	-	-	-	-	3,128,205
Bills and acceptances payables	1,521,759	346,777	-	-	-	114,192	1,982,728
Amount due to Cagamas	28,934	29,206	59,238	1,207,557	36,120	-	1,361,055
Other liabilities	-	-	-	-	-	518,443	518,443
	<b>18,739,001</b>	<b>2,597,737</b>	<b>3,342,939</b>	<b>1,315,057</b>	<b>244,142</b>	<b>659,517</b>	<b>26,898,393</b>
Net maturity mismatches	<b>(1,885,540)</b>	<b>(798,053)</b>	<b>(2,535,612)</b>	<b>2,747,892</b>	<b>3,951,383</b>		



## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (d) Liquidity risk (continued)

Group 2003	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
<b>Assets</b>							
Cash and short term funds	5,184,022	-	-	-	-	-	5,184,022
Securities purchased under resale agreement	62,400	-	374,286	-	-	-	436,686
Deposits and placement with financial institutions	2,876	-	-	-	-	-	2,876
Dealing securities	2,218,788	613,685	-	481,462	138,696	-	3,452,631
Investment securities	95,000	300	-	38,207	182,648	20,580	336,735
Loans and advances	5,971,706	801,095	730,958	3,134,419	3,926,498	-	14,564,676
Other assets	-	-	-	-	-	1,038,109	1,038,109
	13,534,792	1,415,080	1,105,244	3,654,088	4,247,842	1,058,689	25,015,735
<b>Liabilities</b>							
Deposits from customers	9,342,022	1,580,481	2,340,864	167,547	79,291	9,481	13,519,686
Deposits and placement of banks and financial institutions	3,576,944	566,405	114,000	-	-	-	4,257,349
Obligations on securities sold under repurchase agreements	2,111,890	-	-	-	-	-	2,111,890
Bills and acceptances payables	1,358,148	118,207	-	-	-	81,407	1,557,762
Amount due to Cagamas	182,530	99,661	49,046	1,086,636	73,912	-	1,491,785
Other liabilities	-	-	-	-	-	430,578	430,578
	16,571,534	2,364,754	2,503,910	1,254,183	153,203	521,466	23,369,050
Net maturity mismatches	(3,036,742)	(949,674)	(1,398,666)	2,399,905	4,094,639		

## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (d) Liquidity risk (continued)

Bank 2004	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
<b>Assets</b>							
Cash and short term funds	2,910,943	-	-	-	-	-	2,910,943
Securities purchased under resale agreement	3,668,835	-	-	-	-	-	3,668,835
Deposits and placement with financial institutions	450,000	-	-	-	-	-	450,000
Dealing securities	200,000	100,000	20,000	233,082	325,159	-	878,241
Investment securities	2,559,000	693,000	-	286,373	82,632	17,845	3,638,850
Loans and advances	7,064,683	1,006,684	787,327	3,543,494	3,787,734	-	16,189,922
Other assets	-	-	-	-	-	1,113,843	1,113,843
	<b>16,853,461</b>	<b>1,799,684</b>	<b>807,327</b>	<b>4,062,949</b>	<b>4,195,525</b>	<b>1,131,688</b>	<b>28,850,634</b>
<b>Liabilities</b>							
Deposits from customers	10,508,138	1,814,081	3,243,701	107,500	208,022	26,882	15,908,324
Deposits and placement of banks and financial institutions	3,552,978	407,673	40,000	-	-	-	4,000,651
Obligations on securities sold under repurchase agreements	3,128,205	-	-	-	-	-	3,128,205
Bills and acceptances payables	1,521,759	346,777	-	-	-	114,192	1,982,728
Amount due to Cagamas	28,934	29,206	59,238	1,207,557	36,120	-	1,361,055
Other liabilities	-	-	-	-	-	517,759	517,759
	<b>18,740,014</b>	<b>2,597,737</b>	<b>3,342,939</b>	<b>1,315,057</b>	<b>244,142</b>	<b>658,833</b>	<b>26,898,722</b>
Net maturity mismatches	<b>(1,886,553)</b>	<b>(798,053)</b>	<b>(2,535,612)</b>	<b>2,747,892</b>	<b>3,951,383</b>		

## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (d) Liquidity risk (continued)

Bank 2003	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
<b>Assets</b>							
Cash and short term funds	5,184,022	-	-	-	-	-	5,184,022
Securities purchased under resale agreement	62,400	-	374,286	-	-	-	436,686
Deposits and placement with financial institutions	2,876	-	-	-	-	-	2,876
Dealing securities	2,218,788	613,685	-	481,462	138,696	-	3,452,631
Investment securities	95,000	300	-	38,207	182,648	20,580	336,735
Loans and advances	5,971,706	801,095	730,958	3,134,419	3,926,498	-	14,564,676
Other assets	-	-	-	-	-	1,028,816	1,028,816
	13,534,792	1,415,080	1,105,244	3,654,088	4,247,842	1,049,396	25,006,442
<b>Liabilities</b>							
Deposits from customers	9,342,269	1,580,481	2,340,864	167,547	79,291	9,482	13,519,934
Deposits and placement of banks and financial institutions	3,576,944	566,405	114,000	-	-	-	4,257,349
Obligations on securities sold under repurchase agreements	2,111,890	-	-	-	-	-	2,111,890
Bills and acceptances payables	1,358,148	118,207	-	-	-	81,407	1,557,762
Amount due to Cagamas	182,530	99,661	49,046	1,086,636	73,912	-	1,491,785
Other liabilities	-	-	-	-	-	430,862	430,862
	16,571,781	2,364,754	2,503,910	1,254,183	153,203	521,751	23,369,582
Net maturity mismatches	(3,036,989)	(949,674)	(1,398,666)	2,399,905	4,094,639		

The contractual maturity analysis often does not reflect the actual behavioural patterns. In particular, the Bank has sufficient amount of "core" deposits from non-bank customers which are contractual at call and thus, included in the "Up to 3 months" time band, but historically shows such deposits providing a stable source of long-term funding for the Bank.

In addition, the Bank is also subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments. The total outstanding contractual amounts do not represent future cash requirements since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the commitments to pay third parties (such as letter of credit) are reimbursed immediately by customers.

## Notes To The Financial Statements

for the year ended 31 December 2004

### 36. Financial Risk Management (continued)

#### (e) Operational Risk Management

Operational risk is defined as the potential loss arising from a breakdown in the Bank's internal control or corporate governance that results in error, fraud, failure/delay to perform, or compromise of the Bank's interests by employees. Operational risk also includes the potential loss arising from a major failure of computer systems and from disasters. Potential loss may be in the form of financial loss or other damages, for example, loss of reputation and public confidence that will impact the Bank's credibility and ability to transact, maintain liquidity and obtain new business.

Operational risk is managed through a framework of approved policies, techniques and procedures. There are periodic risk management reports submitted and reviewed by Risk Management Committee.

This framework of techniques and procedures encompasses the following:

- the building of Operational Risk Profiles (ORPs);
- conduct of Operational Risk Self Assessment (ORSA) based on the ORPs;
- development of an Operational Risk Action Plan (ORAP);
- the monitoring of Key Operational Risk Indicators (KORIs);
- the collection and analysis of risk events/loss data; and
- the process for monitoring and reporting operational risk issues.

Included in the overall framework of operational risk is the disciplined product programme process. This process aims to ensure that the risks associated with each new product/service are identified, analysed and managed.

As part of the Bank's comprehensive operational risk framework, Business Contingency Plan has been developed. In addition, in line with the increasing need to outsource internal operations in order to achieve cost efficiency, policy has been established to regulate the outsourcing of services to third parties.

The Bank has put in place Compliance Officers to monitor and enforce compliance with the relevant laws, regulations, policies and procedures in their respective areas.

### 37. Fair Value Of Financial Assets And Liabilities

Financial instruments comprise financial assets, financial liabilities and also off-balance sheet derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents best estimates of fair values of financial instruments at the balance sheet date.

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group and the Bank could realise in a sale transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and the Bank as a going concern.

## Notes To The Financial Statements

for the year ended 31 December 2004

### 37. Fair Value Of Financial Assets And Liabilities (continued)

The on-balance sheet financial assets and liabilities of the Group and the Bank whose fair values are required to be disclosed in accordance with MASB Standard 24 comprise all its assets and liabilities with the exception of investments in subsidiaries, investments in associates, fixed assets and provision for current and deferred taxation. The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets, except for the following financial assets and liabilities:

Group	2004		2003	
	Carrying amount RM'000	Estimated fair value RM'000	Carrying amount RM'000	Estimated fair value RM'000
<b>Financial assets</b>				
Dealing securities	878,241	887,914	3,452,631	3,453,422
Investment securities	3,638,850	3,669,622	336,735	355,000
Loan, advances and financing*	16,441,872	16,472,371	14,816,626	14,815,587
<b>Financial liabilities</b>				
Deposits from customers	15,907,311	15,911,128	13,519,686	13,507,924
Deposits and placements of banks and other financial institutions	4,000,651	4,000,512	4,257,349	4,257,319
Recourse obligation on loans sold to Cagamas	1,361,055	1,356,446	1,491,785	1,449,719
<b>Bank</b>				
<b>Financial assets</b>				
Dealing securities	878,241	887,914	3,452,631	3,453,421
Investment securities	3,638,850	3,669,622	336,735	355,000
Loan, advances and financing*	16,441,810	16,472,309	14,816,564	14,815,525
<b>Financial liabilities</b>				
Deposits from customers	15,908,324	15,912,141	13,519,934	13,508,172
Deposits and placements of banks and other financial institutions	4,000,651	4,000,512	4,257,349	4,257,319
Recourse obligation on loans sold to Cagamas	1,361,055	1,356,446	1,491,785	1,449,719

\* The general provisions for the Group and the Bank amounting to RM251,950,000 (RM251,950,000) and RM251,888,000 (2003: RM251,888,000) respectively have been added back to arrive at the carrying value of the loans, advances and financing.

## Notes To The Financial Statements

for the year ended 31 December 2004

### 37. Fair Value Of Financial Assets And Liabilities (continued)

Off-balance sheet derivatives are instruments whose values change in response to the change in one or more "underlying", such as foreign exchange rate, security price and credit index. They include forwards, swaps, futures, options and credit derivatives. In the normal course of business, the Group and the Bank customise derivatives to meet specific needs of their customers. The Group and the Bank also transact in these derivatives for proprietary trading purposes as well as to manage its assets/liabilities and structural positions. The fair values of the derivatives are as follows:

	Group and Bank		
	Contract or underlying Principal amount RM'000	Positive fair value RM'000	Negative fair value RM'000
<b>2004</b>			
Foreign exchange contracts			
- forwards	851,488	3,964	1,977
- swaps	3,442,800	192,462	1,906
Interest rate related contracts			
- forwards	15,210,000	9,112	15,726
- swaps	4,983,075	66,526	273,464
<b>2003</b>			
Foreign exchange contracts			
- forwards	437,101	1,136	45
- swaps	2,454,800	192,264	6,962
Interest rate related contracts			
- forwards	3,619,500	1,234	1,154
- swaps	3,238,000	48,188	227,416

The table above analyse the notional principal amounts and the positive and negative fair values of the Group's and Banks' off-balance sheet derivatives. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date for both trading and hedging instruments. They do not necessarily indicate the amounts of future cash flows or the fair value of the derivatives and therefore, do not represent total amount of risk. The positive and negative fair values represent the favourable and unfavourable fair values respectively of hedging and trading derivatives as a result of fluctuations in the value of the underlying relative to their contractual terms as at balance sheet date.

The fair values of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs. The Group and Bank assess that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant. Where available, quoted and observable market prices are used as the measure of fair values, such as for government treasury bills and securities and quoted securities. Where quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions, the principal ones being as follows:

- (a) The fair values of cash and balances with Bank Negara Malaysia and placements and balances with banks, agents and related companies are considered to approximate their carrying values because most of these are of negligible credit risk and either short term in nature or repriced frequently.

## Notes To The Financial Statements

for the year ended 31 December 2004

### 37. Fair Value Of Financial Assets And Liabilities (continued)

- (b) Fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including net tangible assets, earnings multiples and discounted cash flow analysis. Where discounted cash flow technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the balance sheet date.
- (c) The fair values of variable rate loans are estimated to approximate their carrying values. For fixed rate loans, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at balance sheet date offered for similar facilities to new borrowers with similar credit profiles. In respect of non-performing loans, the fair values are deemed to approximate the carrying values which are net of interest income-in-suspense and specific provision for bad and doubtful debts and financing.
- (d) The Group and the Bank consider the carrying amount of its deposits, such as non bank customers' deposits and deposits and balances of banks, agents and related companies with maturities of less than one year approximate their fair values due to the relatively short maturity of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities.
- (e) The fair values of amount due to Cagamas are determined based on the discounted cash flows of future instalment payments at applicable prevailing Cagamas rates as at balance sheet date.
- (f) For off-balance sheet derivatives, where quoted and observable market prices are not available, fair values are arrived at using internal pricing models. As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

### 38. Comparative Figures

The comparative figures have been audited by a firm of chartered accountants other than Ernst & Young.

The following comparative amounts as at 31 December 2003 have been reclassified to conform with current year's presentation:

	<b>As Restated RM'000</b>	<b>Adjust- ments RM'000</b>	<b>As Previously Stated RM'000</b>
<b>Group</b>			
Other assets	207,980	184,866	392,846
Other liabilities	386,595	171,419	558,014
Taxation	43,983	13,447	57,430
<b>Bank</b>			
Other assets	208,483	184,775	393,258
Other liabilities	386,788	171,419	558,207
Taxation	44,074	13,356	57,430